UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended September 26, 1998

OR

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

For the transition period from ____________ to ____________

COMMISSION FILE NUMBER 1-7685

AVERY DENNISON CORPORATION
(Exact name of registrant as specified in its charter)

DELAWARE	95-1492269
(State or other jurisdiction of incorporation or organization)	(I.R.S. 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

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

Number of shares of $1 par value common stock outstanding as of October 23, 1998: 116,257,543

AVERY DENNISON CORPORATION
AND SUBSIDIARIES

INDEX TO FORM 10-Q

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

	SEPTEMBER 26, 1998	DECEMBER 27, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 4.9	$ 3.3
Trade accounts receivable, net	515.3	457.7
Inventories, net	231.9	230.1
Prepaid expenses	21.2	19.6
Other current assets	82.4	82.8
Total current assets	855.7	793.5
Property, plant and equipment, at cost	1,869.1	1,790.5
Accumulated depreciation	(868.3)	(805.2)
	1,000.8	985.3
Intangibles resulting from business acquisitions, net	134.2	133.7
Other assets	144.0	134.0
	$ 2,134.7	$ 2,046.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt and current portion of long-term debt	$ 39.1	$ 43.6
Accounts payable	252.4	245.3
Other current liabilities	327.4	341.0
Total current liabilities	618.9	629.9
Long-term debt	471.1	404.1
Deferred taxes and other long-term liabilities	183.7	175.3
Shareholders' equity:		
Common stock - $1 par value - 400,000,000 authorized shares; issued - 124,126,624 shares at September 26, 1998 and December 27, 1997	124.1	124.1
Capital in excess of par value	694.0	592.5
Retained earnings	1,157.0	1,063.6
Cumulative foreign currency translation adjustment	(17.2)	(21.4)
Cost of unallocated ESOP shares	(19.3)	(23.4)
Minimum pension liability	(1.1)	(1.1)
Employee stock benefit trusts, 15,289,269 at September 26, 1998 and 16,693,347 shares at December 27, 1997	(793.0)	(730.3)
Treasury stock at cost, 7,336,388 shares at September 26, 1998 and 5,053,046 shares at December 27, 1997	(283.5)	(166.8)
Total shareholders' equity	861.0	837.2
	$ 2,134.7	$ 2,046.5

See Notes to Consolidated Financial Statements

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

	Three Months Ended		Nine Months Ended	
	September 26, 1998	September 27, 1997	September 26, 1998	September 27, 1997
Net Sales	$860.2	$835.6	$2,575.3	$2,509.3
Cost of products sold	579.3	565.5	1,722.6	1,702.5
Gross profit	280.9	270.1	852.7	806.8
Marketing, general and administrative expense	188.9	183.9	575.0	552.9
Interest expense	8.7	8.0	25.3	25.3
Income before taxes	83.3	78.2	252.4	228.6
Taxes on income	27.5	25.6	85.0	78.2
Net income	$ 55.8	$ 52.6	$ 167.4	$ 150.4
PER SHARE AMOUNTS:				
Net income per common share	$ .55	$ .51	$ 1.64	$ 1.46
Net income per common share, assuming dilution	$ .54	$ .50	$ 1.60	$ 1.41
Dividends	$ .21	$ .17	$ .63	$ .51
AVERAGE SHARES OUTSTANDING:				
Common shares	101.7	103.1	101.9	103.3
Common shares, assuming dilution	104.2	106.1	104.6	106.3

See Notes to Consolidated Financial Statements

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

	Nine Months Ended	
	September 26, 1998	September 27, 1997
OPERATING ACTIVITIES:		
Net income	$ 167.4	$ 150.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	84.2	78.5
Amortization	9.1	8.4
Deferred taxes	1.5	1.3
Net change in assets and liabilities, net of the effect of foreign currency translation and business divestitures and acquisitions	(30.9)	(28.2)
Net cash provided by operating activities	231.3	210.4
INVESTING ACTIVITIES:		
Purchase of property, plant and equipment	(102.1)	(104.1)
Net payments from sale of assets, business divestitures and acquisitions	(3.1)	(4.2)
Other	(11.5)	(16.6)
Net cash used in investing activities	(116.7)	(124.9)
FINANCING ACTIVITIES:		
Net increase in short-term debt	92.8	57.7
Net decrease in long-term debt	(31.8)	(30.6)
Dividends paid	(74.0)	(61.7)
Purchase of treasury stock	(116.7)	(57.6)
Proceeds from exercise of stock options	18.4	9.5
Other	(1.8)	0.2
Net cash used in financing activities	(113.1)	(82.5)
Effect of foreign currency translation on cash balances	0.1	(0.5)
Increase in cash and cash equivalents	1.6	2.5
Cash and cash equivalents, beginning of period	3.3	3.8
Cash and cash equivalents, end of period	$ 4.9	$ 6.3

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. Certain prior year amounts have been reclassified to conform with current year presentation. The condensed financial statements and notes in this Form 10-Q are presented as permitted by Regulation S-X, and as such, they do not contain certain information included in the Company's 1997 annual financial statements and notes.

The third quarters of 1998 and 1997 consisted of thirteen-week periods ending September 26, 1998 and September 27, 1997, respectively. The interim results of operations are not necessarily indicative of future financial results.

2. COMPREHENSIVE INCOME

Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income", was adopted during the first quarter of 1998. The standard establishes guidelines for the reporting and display of comprehensive income and its components in financial statements. Comprehensive income includes foreign currency translation adjustments and adjustments to the minimum pension liability that are currently presented as components of shareholders' equity. Companies are required to report total comprehensive income for interim periods beginning first quarter of 1998. Disclosure of comprehensive income and its components will be required beginning fiscal year end 1998. The Company's total comprehensive income for the three and nine months ended September 26, 1998 was $64.2 million and $171.6 million, respectively. For the three and nine months ended September 27, 1997, total comprehensive income was $35.9 million and $104.4 million, respectively.

3. FOREIGN CURRENCY TRANSLATION

Transactions in foreign currencies and translation of the financial statements of subsidiaries which operate in hyperinflationary economies during 1998 resulted in losses of $.7 million and $2.1 million, respectively, during the three and nine months ended September 26, 1998. During 1997, the Company recorded losses of $.5 million and $.9 million, respectively, during the three and nine months ended September 27, 1997. Operations in hyperinflationary economies consist of the Company's Mexican operations for 1998 and 1997 and Brazilian operations for 1997.

4. FINANCIAL INSTRUMENTS

The Company enters into foreign exchange forward and option contracts and interest rate contracts to manage exposure to fluctuations in foreign currency exchange and interest rates. The Company does not hold or purchase any foreign currency or interest rate contracts for trading purposes.

Foreign exchange forward and option contracts that hedge existing assets, liabilities or firm commitments are measured at fair value and the related gains and losses on these contracts are recognized in net income currently. Foreign exchange forward and option contracts that hedge forecasted transactions are measured at fair value and the related gains and losses on these contracts are deferred and subsequently recognized in net income in the period in which the underlying transaction is consummated. In the event that an anticipated transaction is no longer likely to occur, the Company recognizes the change in fair value of the instrument in net income currently.

Gains and losses resulting from foreign exchange forward and option contracts are recorded in the same category as the related item being hedged. Cash flows from the use of financial instruments are reported in the same category as the hedged item in the Condensed Consolidated Statement of Cash Flows. Gains and losses on contracts used to hedge the value of investments in certain foreign subsidiaries are included in the cumulative foreign currency translation adjustment component of shareholders' equity.

The net amounts paid or received on interest rate agreements are recognized as adjustments to interest expense over the terms of the agreements. Contract premiums paid, if any, are amortized to interest expense over the terms of the underlying instruments.

5. INVENTORIES

Inventories consisted of (in millions):

	September 26, 1998	December 27, 1997
Raw materials	$ 68.1	$ 74.4
Work-in-progress	69.4	70.9
Finished goods	122.9	114.7
LIFO adjustment	(28.5)	(29.9)
	$231.9	$230.1

6. INTANGIBLES RESULTING FROM BUSINESS ACQUISITIONS

Accumulated amortization of intangible assets at September 26, 1998 and December 27, 1997 was $53.9 million and $49.4 million, respectively.

7. RESEARCH AND DEVELOPMENT

Research and development expense for the three and nine months ended September 26, 1998 was $16.5 million and $50.1 million, respectively. For the three and nine months ended September 27, 1997, research and development expense was $14.4 million and $45 million, respectively.

8. CONTINGENCIES

The Company has been designated by the U.S. Environmental Protection Agency (EPA) and/or other responsible state agencies as a potentially responsible party (PRP) at 16 waste disposal or waste recycling sites which are the subject of separate investigations or proceedings concerning alleged soil and/or groundwater contamination and for which no settlement of the Company's liability has been agreed upon. Litigation has been initiated by a governmental authority with respect to two of these sites, but the Company does not believe that any such proceedings will result in the imposition of monetary sanctions. The Company is participating with other PRPs at all such sites, and anticipates that its share of cleanup costs will be determined pursuant to remedial agreements entered into in the normal course of negotiations with the EPA or other governmental authorities.

The Company has accrued liabilities for all sites, including sites in which governmental agencies have designated the Company as a PRP, where it is probable that a loss will be incurred and the minimum cost or amount of loss can be reasonably estimated. However, because of the uncertainties associated with environmental assessment and remediation activities, future expense to remediate the currently identified sites, and sites which could be identified in the future for cleanup, could be higher than the liability currently accrued. Based on current site assessments, management believes that the potential liability over the amounts currently accrued would not materially affect the Company.

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

9. NET INCOME PER SHARE

SFAS No. 128, "Earnings Per Share", was adopted in the fourth quarter of 1997 and supersedes the Company's previous standards for computing net income per share under Accounting Principles Board No. 15. The new standard requires dual presentation of net income per common share and net income per common share, assuming dilution, on the face of the income statement. All prior year net income per share data has been restated for 1997 in accordance with the new standard.

In accordance with SFAS No. 128, net income per common share amounts were computed as follows:

(In millions, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 26, 1998	September 27, 1997	September 26, 1998	September 27, 1997
(A) Net income available to common shareholders	$ 55.8	$ 52.6	$ 167.4	$ 150.4
(B) Weighted average number of common shares outstanding	101.7	103.1	101.9	103.3
Additional common shares issuable under employee stock options using the treasury stock method	2.5	3.0	2.7	3.0
(C) Weighted average number of common shares outstanding assuming the exercise of stock options	104.2	106.1	104.6	106.3
Net income per common share (A) / (B)	$ .55	$ .51	$ 1.64	$ 1.46
Net income per common share, assuming dilution (A) / (C)	.54	.50	1.60	1.41

10. FUTURE ACCOUNTING REQUIREMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". The standard establishes guidelines for reporting information on operating segments in interim and annual financial statements. The new standard will be effective for the 1998 fiscal year. Abbreviated quarterly disclosure will be required beginning first quarter of 1999, and will include both 1999 and 1998 information. The Company does not believe that the new standard will have a material impact on the reporting of its segments.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The new rules will be effective the first quarter of 2000. The Company is in the process of determining the impact of this new standard and anticipates that it will not have a material impact on the Company's financial results when effective.

11. SUBSEQUENT EVENTS

On October 6, 1998, the Company acquired Spartan International, Inc., a privately held specialty converting operation based in Holt, Michigan. Spartan International, Inc. supplies pressure-sensitive products to the commercial graphics, sign making, vehicle marking and automotive markets.

On October 26, 1998, the Company signed a definitive agreement with Steinbeis Holding GmbH to combine Avery Dennison's office products businesses in Europe with Zweckform Buro-Produckte GmbH (Zweckform), a German office products supplier. Zweckform produces labels, films and specialty papers for use with personal computers, desktop printers and copiers. Zweckform products had sales of approximately $120 million in 1997. The transaction is expected to close in the first quarter of 1999, pending regulatory approvals and due diligence.

RESULTS OF OPERATIONS: FOR THE QUARTER

Quarterly sales increased to $860.2 million, a 2.9 percent increase over third quarter 1997 sales of $835.6 million. Excluding changes in foreign currency rates, sales increased 3.9 percent.

Gross profit margin increased to 32.7 percent for the quarter compared to 32.3 percent for the third quarter of 1997. The increase was primarily due to ongoing cost reduction programs, increased manufacturing efficiency and improved product mix.

Marketing, general and administrative expense, as a percent of sales, was comparable to third quarter of 1997 at 22 percent.

Interest expense increased to $8.7 million for the third quarter of 1998 compared to $8 million a year ago, due to higher average debt. Income before taxes, as a percent of sales, increased to 9.7 percent for the quarter from 9.4 percent as a result of the improvement in gross profit. The effective tax rate for the quarter was 33 percent in 1998 and 32.7 percent in the same period last year.

Net income increased 6.1 percent to $55.8 million compared to $52.6 million in the third quarter of 1997. Net income per common share for the quarter was $.55 compared to $.51 in the same period last year, a 7.8 percent increase. Net income per common share, assuming dilution was $.54 for the third quarter of 1998 and $.50 for the same period last year, an 8 percent increase.

Results of Operations by Business Sector

The Pressure-sensitive adhesives and materials sector reported increased sales for the third quarter of 1998 compared to the same period last year. Profits for the sector decreased slightly primarily due to higher indirect manufacturing expenses from plant start-ups. U.S. operations' reported sales growth was primarily led by increased unit volume in its materials business. Profits for U.S. operations decreased slightly primarily due to costs associated with new start-ups. International operations' reported sales growth, which was partially offset by changes in foreign currency rates, was primarily due to increased demand for film materials, specialty tapes and graphics businesses in Europe. Profits for international operations increased for the third quarter of 1998 compared to the same period last year primarily due to higher unit volume in Europe and geographic expansion.

The Consumer and converted products sector reported increased sales and profits for the third quarter of 1998 compared to the same period last year. Increased sales in U.S. operations were led by growth of its Avery-brand products, and industrial and automotive products. While the Company achieved sales growth in its office products business, several of its major retailers have communicated inventory reduction programs. The Company experienced some impact from this in the third quarter of 1998 and expects these programs to continue into the fourth quarter of 1998 and into the early part of 1999. However, point-of-sale data obtained from these customers showed no change in demand for Avery-brand products during the third quarter. U.S. operations' profit growth was primarily due to improved performance in its consumer packaging, industrial and automotive, and office products businesses. Increased sales in international operations were primarily due to its office products business in Europe, and its ticketing businesses, which were partially offset by changes in foreign currency rates. Increased profits in international operations, which were partially offset by changes in foreign currency rates, were primarily due to improved performance in its European converting and office products businesses.

RESULTS OF OPERATIONS: NINE MONTHS YEAR-TO-DATE

Sales for the first nine months of 1998 were up 2.6 percent to $2.6 billion compared to the corresponding period of 1997. Excluding changes in foreign currency rates, sales increased 4.7 percent.

The gross profit margin for the first nine months was 33.1 percent compared to 32.2 percent in the prior year. The increase was primarily due to ongoing cost reduction programs, increased manufacturing efficiency and improved product mix. Marketing, general and administrative expense, as a percent of sales, for the first nine months was 22.3 percent compared to 22 percent for the same period last year. The increase was primarily due to increases in marketing and research and development expenses, reflecting the Company's focus on marketing promotion and new product development expenses.

Interest expense for the first nine months for both periods was $25.3 million. Income before taxes, as a percent of sales, was 9.8 percent for the first nine months of 1998 compared to 9.1 percent for 1997. The year-to-date effective tax rate declined to 33.7 percent in 1998 compared to 34.2 percent in 1997 due to an increase in U.S. tax credits for research and experimentation.

Net income was $167.4 million for the first nine months of 1998 compared to $150.4 million for the first nine months of 1997, an 11.3 percent increase. Net income per common share increased 12.3 percent to $1.64 for the first nine months of 1998 compared to $1.46 for the same period last year. Net income per common share, assuming dilution was $1.60 for the first nine months of 1998 compared to $1.41 for the same period last year, a 13.5 percent increase year over year.

Results of Operations by Business Sector

The Pressure-sensitive adhesives and materials sector reported increased sales and profits for the first nine months of 1998 compared to the same period last year. U.S. operations' sales and profit growth primarily led by increased demand for film applications and digital graphics products. Increased sales in international operations, which were partially offset by changes in foreign currency rates, were primarily due to increased demand for specialty tapes and digital graphics businesses in Europe, and geographic expansion. Profits for international operations decreased slightly primarily due to changes in foreign currency rates.

The Consumer and converted products sector reported increased sales and profits for the first nine months of 1998 compared to 1997. Increased sales in U.S. operations were led by growth of its Avery-brand products, and industrial and automotive products. Profits increased in the U.S. primarily due to improved performance in its office products, consumer packaging, and industrial and automotive businesses. Increased sales in international operations were primarily due to its office products and ticketing businesses, which were partially offset by changes in foreign currency rates. Profits increased in international operations primarily due to improved performance in its European converting and office products divisions, and its ticketing businesses.

FINANCIAL CONDITION

Average working capital, excluding short-term debt, as a percentage of sales, decreased to 8 percent for the quarter compared to 8.1 percent a year ago. Average inventory turnover for the third quarter was 10 inventory turns for both periods; the average number of days of sales outstanding in accounts receivable was 55 days compared to 54 days a year ago.

Net cash flows provided by operating activities totaled $231.3 million for the first nine months of 1998 compared to $210.4 million for the same period in 1997. The increase in net cash flows provided by operating activities is primarily due to the increase in net income.

Capital spending for the quarter was $27.7 million compared to $36.5 million a year ago. For the nine months, capital spending totaled $102.1 million compared to $104.1 million a year ago. Total capital spending for 1998 is expected to come in at the low end of the $175 to $200 million range. In addition to cash flow from operations, the Company has more than adequate financing arrangements to conduct its operations.

During the first nine months of 1998, total debt increased $62.5 million to $510.2 million from year end 1997. During the fourth quarter of 1996, the Company registered with the Securities and Exchange Commission, $150 million in principal amount of medium-term notes, of which $60 million in notes had been issued as of year end 1997. No notes were issued for the first nine months of 1998. Proceeds from the medium-term notes have been used to reduce debt and for other general corporate purposes.

FINANCIAL CONDITION (CONTINUED)

Shareholders' equity increased to $861 million from $837.2 million at year end 1997. During the third quarter of 1998, the Company purchased approximately .5 million shares of common stock at a cost of $24.9 million. For the first nine months of 1998, the Company purchased 2.3 million shares of common stock at a cost of $116.7 million. The market value of shares held in the employee stock benefit trusts, after the issuance of shares under the Company's stock and incentive plans, increased by $62.7 million to $793 million from year end. Total debt to total capital was 37.2 percent as of the end of third quarter 1998 and 34.8 percent at year end 1997. Dividends paid for the first nine months of 1998 totaled $74 million compared to $61.7 million a year ago.

FUTURE ACCOUNTING REQUIREMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information". The standard establishes guidelines for reporting information on operating segments in interim and annual financial statements. The new standard will be effective for the 1998 fiscal year. Abbreviated quarterly disclosure will be required beginning first quarter of 1999, and will include both 1999 and 1998 information. The Company does not believe that the new standard will have a material impact on the reporting of its segments.

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". This Statement requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. The new rules will be effective the first quarter of 2000. The Company is in the process of determining the impact of this new standard and anticipates that it will not have a material impact on the Company's financial results when effective.

YEAR 2000

The Year 2000 (Y2K) issue is the result of computer programs being written for, or microprocessors using, two digits (rather than four) to define the applicable year. Company computer programs that have date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000, which could result in system failures or miscalculations. The Company is currently working to mitigate the Y2K issue and has established processes for assessing the risks and associated costs.

YEAR 2000 (CONTINUED)

The Company categorizes its Y2K efforts as follows: hardware, software, embedded processors, vendors and customers. Progress in assessing and remediating information technology systems (hardware and software) and non-information technology systems (embedded processors) will be tracked in phases including assessment, identification of non-compliant systems, remediation, testing and verification. Hardware, software and embedded processors have been assessed and remediation is in progress. The Company's Y2K projects are progressing and the Company expects that a large portion of its internal remediation work will be completed by year end 1998. The Company is using internal and external resources to remediate and test its systems.

The Company has initiated communications with significant vendors and customers to coordinate the Y2K issue, and is in the process of determining the Company's vulnerability if these companies fail to remediate their Y2K issues. There can be no guarantee that the systems of other companies will be timely remediated, or that other companies' failure to remediate Y2K issues would not have a material adverse effect on the Company. The Company intends to develop contingency plans to mitigate risks associated with the Y2K issue.

Costs incurred to date in addressing the Y2K issue have not been significant and are being funded through operating cash flows. Based on current information, costs to remediate and test the Company's systems are not expected to be material.

The Company presently believes that with remediation, Y2K risks can be mitigated. However, although the Company is not currently aware of any material internal operational or financial Y2K related issues, the Company cannot provide assurances that the computer systems, products, services or other systems upon which the Company depends will be Y2K ready on schedule, that the costs of its Y2K program will not become material or that the Company's contingency plans will be adequate. The Company is currently unable to evaluate accurately the magnitude, if any, of the Y2K related issues arising from the Company's vendors and customers. If any such risks (either with respect to the Company or its vendors or customers) materialize, the Company could experience serious consequences to its business which could have material adverse effects on the Company's financial condition, results of operations and liquidity.

EURO CONVERSION

On January 1, 1999, a single currency called the euro will be introduced in Europe. Eleven of the fifteen member countries of the European Union have agreed to adopt the euro as their common legal currency on that date. Fixed conversion rates between these countries' existing currencies (legacy currencies) and the euro will be established as of that date. The legacy currencies are scheduled to remain legal tender in these participating countries between January 1, 1999 and January 1, 2002 (not later than July 1, 2002). During this transition period, parties may settle transactions using either the euro or a participating country's legacy currency.

EURO CONVERSION (CONTINUED)

The Company has established a steering committee to plan for and determine the impact of the euro conversion. The Company expects that its facilities that will be affected by the conversion will be able to do business in the euro beginning January 1999. The Company does not expect the cost of system modifications to be material.

Based on currently available information, management does not believe that the euro conversion will have a material adverse impact on the Company's business or financial condition. The Company will continue to evaluate the impact of the euro conversion.

FUTURE GROWTH AND OUTLOOK

On October 6, 1998, the Company acquired Spartan International, Inc., a privately held specialty converting operation based in Holt, Michigan. Spartan International, Inc. supplies pressure-sensitive products to the commercial graphics, sign making, vehicle marking and automotive markets.

On October 26, 1998, the Company signed a definitive agreement with Steinbeis Holding GmbH to combine Avery Dennison's office products businesses in Europe with Zweckform Buro-Produckte GmbH (Zweckform), a German office products supplier. Zweckform produces labels, films and specialty papers for use with personal computers, desktop printers and copiers. Zweckform products had sales of approximately $120 million in 1997. The transaction is expected to close in the first quarter of 1999, pending regulatory approvals and due diligence.

The Company expects 1998 to be another successful year. However, the Company sees an uncertain economic environment impacting many of our customers which could affect sales. As a result, the Company is intensifying efforts to reduce manufacturing and operating expenses and improve productivity throughout all of its businesses. At the same time, the Company intends to continue to pursue long-term growth opportunities in its key markets.

SAFE HARBOR STATEMENT

Except for historical information contained herein, the matters discussed in the Management's Discussion and Analysis of Results of Operations and Financial Condition and other sections of this Form 10-Q contain "forward-looking statements" within the meaning of the Private Securities Reform Act of 1995. These statements, which are not statements of historical fact, may contain estimates, assumptions, projections and/or expectations regarding future events. Such forward-looking statements, and financial or other business targets, are subject to certain risks and uncertainties which could cause actual results to differ materially from any future results, performance or achievements of the Company expressed or implied by such forward-looking statements. Certain of such risks and uncertainties are discussed in more detail in the Company's Annual Report on Form 10-K for the year ended December 27, 1997 and include, but are not limited to, risks and uncertainties relating to investment in new production facilities, timely development and successful marketing of new products, impact of competitive products and pricing, customer and supplier and manufacturing concentrations, changes in customer order patterns and inventory levels, increased competition, impact of Year 2000 issues and the euro conversion, litigation risks, fluctuations in foreign exchange rates or other risks associated with foreign operations, changes in economic or political conditions, and other factors.

SAFE HARBOR STATEMENT (CONTINUED)

Any forward looking statements should also be considered in light of the factors detailed in Exhibit 99 in the Company's Annual Report on Form 10-K for the year ended December 27, 1997.

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

PART II. OTHER INFORMATION
AVERY DENNISON CORPORATION
AND SUBSIDIARIES

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There are no material changes in the information provided in Item 7A of the Company's Form 10-K for the fiscal year ended December 27, 1997.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits 12 Computation of Ratio of Earnings to Fixed Charges
27 Financial Data Schedule

b. Reports on Form 8-K: There were no reports on Form 8-K filed for the three months ended September 26, 1998.

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/ Robert M. Calderoni

Robert M. Calderoni
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)

November 6, 1998

EXHIBIT 12

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

	Three Months Ended		Nine Months Ended	
	September 26, 1998	September 27, 1997	September 26, 1998	September 27, 1997
Earnings:				
Income before taxes	$83.3	$78.2	$252.4	$228.6
Add: Fixed charges*	12.7	12.3	38.9	38.7
Amortization of capitalized interest	.4	.4	1.1	1.0
Less: Capitalized interest	(.3)	(.5)	(2.6)	(1.8)
	$96.1	$90.4	$289.8	$266.5
*Fixed charges:				
Interest expense	$ 8.7	$ 8.0	$ 25.3	$ 25.3
Capitalized interest	.3	.5	2.6	1.8
Amortization of debt issuance costs	.1	.1	.3	.4
Interest portion of leases	3.6	3.7	10.7	11.2
	$12.7	$12.3	$ 38.9	$ 38.7
Ratio of Earnings to Fixed Charges	7.6	7.3	7.4	6.9

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.

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED CONSOLIDATED BALANCE SHEET AND THE CONSOLIDATED STATEMENT OF INCOME AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

9-MOS
JAN-02-1999
DEC-28-1997
SEP-26-1998
4,900
0
515,300
0
231,900
855,700
1,869,100
868,300
2,134,700
618,900
471,100
0
0
124,100
736,900
2,134,700
2,575,300
2,575,300
1,722,600
1,722,600
575,000
0
25,300
252,400
85,000
167,400
0
0
0
167,400
1.64
1.60

ACCOUNTS RECEIVABLE ARE SHOWN NET OF ANY ALLOWANCES.
REPRESENTS EPS BASIC