

CPS TECHNOLOGIES CORP/DE/
Form 10-K
March 27, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934** for the fiscal year ended December 27, 2008

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: 0-16088

CPS TECHNOLOGIES CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction
of Incorporation or Organization)

04-2832509

(I.R.S. Employer
Identification No.)

111 South Worcester Street
Norton, MA
(Address of principal executive offices)

02712-0338
(Zip Code)

Registrant's telephone no., including area code: 508-222-0614

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value, \$0.01 per share

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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☐ Yes ☒ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period than the registrant was required to file such reports), and (2) has been subject to the filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☐ Smaller reporting company ☒

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act

☐ Yes ☒ No

The aggregate market value of the voting Common Stock held by non-affiliates of the Registrant was \$15,079,534 based on the average of the reported closing bid and asked prices for the Common Stock as of the last business day of the registrant's most recently completed second fiscal quarter as reported on the OTC Bulletin Board.

Number of shares of Common Stock outstanding as of March 20, 2009: 12,624,959 shares.

Documents incorporated by reference.

Part I

Item 1. Business.

CPS Technologies Corporation (the "Company" or "CPS") (formerly Ceramics Process Systems Corporation) provides advanced material solutions to the electronics, power generation, automotive and other industries. In 2008 the Company also entered into a cooperative agreement with the U.S. Army to further develop its composite technology to produce armor.

The Company's products are generally used in high-power, high-reliability applications. These applications always involve energy use or energy generation and the Company's products allow higher performance and improved energy efficiency. The Company is an important participant in the growing movement towards alternative energy and "green" lifestyles. For example, the Company's products are used in mass transit, hybrid and electric cars, wind-turbines for electricity generation as well as routers and switches for the internet which in turn allows telecommuting.

Our primary advanced material solution is metal matrix composites (MMCs), a new class of materials which are a combination of metal and ceramic. CPS has a leading, proprietary position in metal matrix composites. Metal matrix composites have several superior properties compared to conventional materials including improved thermal conductivity, thermal expansion matching, stiffness and light weight which enable higher performance and higher reliability in our customers' products.

Like plastics several decades ago, we believe metal-matrix composites will penetrate many end markets over many years. CPS management believes our business model of providing advanced material solutions to a portfolio of high growth end markets which are, at any point in time, in various stages of the technology adoption lifecycle, provides CPS with the opportunity for sustained growth and a diversified customer base. We believe we have validated this model as we are now supplying customers at all stages of the technology adoption lifecycle.

CPS is the leader in supplying metal matrix composites to certain high growth electronics end markets which are well along in the adoption lifecycle and therefore generating significant demand. These end markets include high-performance integrated circuits and circuit boards used in internet switches and routers, as well as motor controllers used in high-speed electric trains, subway cars and wind turbines. CPS supplies heat spreaders, lids and baseplates to customers in these end markets. CPS is a fully qualified manufacturer for many of the world's largest electronics OEMs.

CPS also assembles housings and packages for hybrid circuits. These housings and packages may include components made of metal-matrix composites; they may include components made of more traditional materials such as aluminum, copper-tungsten, etc.

Concurrently, CPS is participating in certain end markets that are at an earlier stage of the adoption lifecycle. Management believes these end markets will generate additional growth longer-term. An example of such an end market is motor controllers for hybrid automobiles and trucks.

We are also actively working with customers in end markets at the beginning stages of the adoption lifecycle. An example of such a market is the market for armor. In 2008 the Company entered into a cooperative agreement with the Army Research Laboratory to further develop large hybrid metal matrix composite modules which integrally combine metal matrix composites and ceramics by enveloping ceramic tiles with MMCs. This system offers a lighter weight, durable, multi-hit capable and cost competitive alternative to conventional steel, aluminum and ceramic based armor systems. CPS hybrid hard face armor modules are comprised of multiple materials completely enveloped within and mechanically and chemically bonded to lightweight and stiff aluminum metal matrix composites.

The Company believes that its hybrid hard face armor tiles will find application in many military vehicles as well as armored commercial vehicles.

Our products are manufactured by proprietary processes we have developed including the Quickset™ Injection Molding Process ('Quickset Process') and the QuickCast™ Pressure Infiltration Process ('QuickCast Process').

CPS was incorporated in Massachusetts in 1984 as Ceramics Process Systems Corporation and reincorporated in Delaware in April 1987 through a merger into a wholly-owned Delaware subsidiary organized for purposes of the reincorporation. In July 1987, CPS completed our initial public offering of 1.5 million shares of our Common Stock. In March 2007, we changed our name from Ceramics Process Systems Corporation to CPS Technologies Corporation.

Overview of Markets and Products

Electronics Markets Overview

Consumer demand continues to motivate the electronics industry to produce products which:

- operate at higher speeds;
- are smaller in size; and
- operate with higher reliability.

While these three requirements result in products of ever-increasing performance, these requirements also create a fundamental challenge for the designer to manage the heat generated by the system moving at higher speeds and/or higher power. Smaller assemblies further concentrate the heat and increase the difficulty of removing it.

This challenge is found at each level in an electronic assembly: at the integrated circuit level speeds are increasing and line widths are decreasing; at the circuit board level higher density devices are placed closer together on circuit boards; and at the system level higher density circuit boards are being assembled closer together.

The designer must resolve the thermal management issues or the system will fail. For every 10 degree Celsius rise in temperature above a threshold level, the reliability of a circuit is decreased by approximately half. In addition, heat usually causes changes in parameters which degrade the performance of both active and passive electronic components.

To resolve thermal management issues the designer is primarily concerned with two properties of the materials which comprise the system: 1) thermal conductivity, which is the rate at which heat moves through materials, and 2) thermal expansion rate (Coefficient of Thermal Expansion or CTE) which is the rate at which materials expand or contract as temperature changes. The designer must ensure that the temperature of an electronic assembly stays within a range in which the differences in the expansion rates of the materials in the assembly do not cause a failure from breaking, delaminating, etc.

CPS combines at the microstructural level a ceramic with a metal to produce a metal matrix composite which has the thermal conductivity needed to remove heat, and a thermal expansion rate which is sufficiently close to other components in the assembly to ensure the assembly is reliable. The ceramic is silicon carbide (SiC), the metal is aluminum (Al), and the composite is aluminum silicon carbide (AlSiC), a metal-matrix composite. CPS can adjust the thermal expansion rate of AlSiC components to match the specific application by modifying the amount of SiC compared to the amount of Al in the component.

CPS produces products made of AlSiC in the shapes and configurations required for each application, for example, in the form of lids, substrates, housings, etc. Every product is made to a customer's blueprint. The CPS process technology allows most products to be made to net shape, requiring no or little final machining.

Although our focus today is on AlSiC components, we believe our proprietary Quickset- Quickcast process technology can be used to produce other metal-matrix composites which may meet future market needs.

Today, the problem of thermal management is most acute in high-performance, high-density applications such as cellular basestations, high-performance microprocessors, application-specific integrated circuits for internet routers and switches, motor controllers and components for satellite communications. However, as the trends towards faster speeds, reduced size and increased reliability continue, and as high-density circuitry is used in a larger number of applications, we believe our products will be used in an increasing number of applications across many end markets.

Structural Markets Overview

Structural applications perform primarily a mechanical rather than electrical function. In any mechanical assembly with moving parts the stiffness and weight of moving parts can have a significant impact on the performance and energy efficiency of the assembly. In particular, in equipment with reciprocating components increasing the stiffness and reducing the weight of reciprocating components improves the performance and energy efficiency of the

equipment.

Today many mechanical components are made of steel because steel has the stiffness required for the particular application. AlSiC has approximately the same stiffness as steel, but is only one-third the weight of steel. AlSiC is, however, higher cost than steel. However, we believe there are many mechanical applications where the customer will pay the higher cost for AlSiC because of significant improvements in performance resulting from the superior stiffness-to-weight ratio of AlSiC.

Examples of structural applications for which we are developing and supplying components include robotic arms for semiconductor manufacturing equipment, certain components for specialty internal combustion engines, and hybrid armor.

Specific Markets and Products

Lids and Heat Spreaders for High-Performance Microprocessors, Application-Specific Integrated Circuits and Other Integrated Circuits ("Flip-chip Applications")

Increases in speed, circuit density, and the number of connections in microprocessor chips (CPUs) and application-specific integrated circuits (ASICs) are accelerating a transition in the way in which these circuits are packaged. Packages provide mechanical protection to the integrated circuit (IC), enable the IC to be connected to other circuits via pins, solder bumps or other connectors, and allow attachment of a heat sink or fan to ensure the IC does not overheat. In the past most high-performance ICs were electrically connected to the package by fine wires in a process known as wire bonding. Increasingly high-performance semiconductors are connected to the package by placing metal bumps on the connection points of the die, turning the die upside down in the package, and directly connecting the bumps on the die with corresponding bumps on the package base by reflowing the bumps. This is referred to as a "flip-chip package". Flip chip packages allow for connection of a larger number of leads in a smaller space, and can provide other electrical performance advantages compared to wire bonded packages.

In many flip chip configurations a lid or heat spreader is placed over the die to protect the die from mechanical damage and to facilitate the removal of heat from the die. Often a heat sink or fan is then attached to the lid. For a high-density die the package designer must ensure that the lid has sufficient thermal conductivity to remove heat from the die and that all components of the package assembly - the die itself, the package base, and the package lid - are made from materials with sufficiently similar thermal expansion rates to ensure the assembly will not break itself apart over time as it thermally cycles.

Our composite material, AlSiC, has been developed to meet these two needs: it is engineered to have sufficient thermal conductivity to allow the heat generated by the die to be removed through the lid, and it is engineered to expand upon heating at a rate similar to other materials used in the package assembly in order to ensure reliability of the package over time as it thermally cycles. We produce lids made of AlSiC for high performance microprocessors and application-specific integrated circuits used in servers, internet switches and other applications.

Most participants in the semiconductor industry believe the densities of ICs will continue to increase following the well-known "Moore's Law". As IC densities increase, generally so does the IC size, and the amount of heat generated by the IC. We believe the need for thermal management will continue to grow rapidly.

Wireless Communications Infrastructure Applications ("Cellular Basestation Applications")

The demand for wireless telecommunications services such as cellular telephone service has grown significantly during the past decade, driven by reduced costs for wireless handsets, a more favorable regulatory environment, increasing competition among service providers and a greater availability of services and microwave spectrum.

We manufacture substrates and heat spreaders on which high-performance and high power circuits such as power amplifiers and power supplies are mounted in wireless basestations. Use of our products allows the basestation manufacturer to reduce overall basestation size, increase the number of calls a basestation can handle, and to improve reliability.

Motor Controller Applications (Insulated Gate Bipolar Transistor ("IGBT") Applications)

The use of power modules to control electric motors of all sizes is growing. This growth is the result of several factors including emerging high-power applications which demand power controllers such as trains, subways and certain industrial equipment, and cost declines in power modules which increasingly make variable speed drives cost effective. Power semiconductors are a very significant portion of the cost of variable speed drives, and the cost of the module housing and thermal management system are also significant; declines in the costs of all these components is driving increased use of variable speed drives.

We provide substrates, baseplates and heat spreaders on which power semiconductors are mounted to produce modules for motor control. The power semiconductors are typically insulated gate bipolar transistors and these applications are often referred to as IGBT applications. Our AlSiC baseplates have sufficient thermal conductivity to allow for removal of heat through the baseplate, and have a thermal expansion rate sufficiently similar to the other components in the assembly to ensure reliability over time as the assembly thermally cycles. We believe this market will continue to grow as the use of power modules penetrates additional motor applications, and as electric motors themselves penetrate new applications such as the hybrid electric vehicle.

Today our primary products for IGBT applications are used in electric trains, subway cars, wind-generating turbines and hybrid and electric vehicles.

Major automobile companies around the world are introducing hybrid electric vehicles (HEVs) and electric vehicle (EVs) at an increasing rate. This focus on more energy efficient vehicles is being driven by increases in energy costs and concerns about climate change. There are many varieties of HEVs and EVs, but all HEVs and EVs contain an electric motor and contain one or more motor controller modules. The Company provides baseplates on which motor controller modules are assembled; these baseplates are lighter weight and provide greater reliability than baseplates made from more conventional materials.

In 2008, the first two commercial hybrid automobile models containing motor controller modules using the Company's baseplates entered production. The Company is working with multiple tier one and tier two suppliers to the automobile industry on several new designs for future introduction. The Company believes the HEV and EV markets will be the source of significant and long-term growth for the Company.

Customers

We sell primarily to major microelectronics systems houses in the United States, Europe and Asia. Our customers typically purchase prototype and evaluation quantities of our products over a one to three year period before purchasing production volumes.

In 2008, our four largest customers accounted for 35%, 28%, 8% and 5% of revenues, respectively. In 2008, 91% of our revenues were derived from commercial applications and 9% from defense-related applications.

Research and Development

In 2008, research and development costs were incurred related to the Cooperative Agreement with the US Army. These costs consist of labor, including applicable overhead expenses, materials and other costs associated with our Cooperative Agreement. Total expenditures incurred in 2008 under this Cooperative Agreement amounted to \$376

thousand of which \$310 thousand is included in cost of research and development under cooperative agreement in the Statement of Income. \$357 thousand of these costs were funded by the US Army in 2008 and is classified as research and development cooperative agreement revenues in the Statement of Income. The \$19 thousand funded by CPS consists of \$16 thousand of direct and indirect costs in connection with the contract included in costs of research and development under cooperative agreements and the Company's allocated portion of general and administrative expenses allowed under the contract included in selling, general and administrative expenses of \$2 thousand.

Unfunded research and development costs, if any, are charged to expense as incurred and were \$0 in 2008, 2007 and 2006.

Availability of Raw Materials

We use a variety of raw materials from numerous domestic and foreign suppliers. These materials are primarily aluminum ingots, ceramic powders and chemicals. The raw materials we use are available from domestic and foreign sources and none is believed to be scarce or restricted for national security reasons.

Patents and Trade Secrets

As of December 27, 2008, we had 13 United States patents and one United States patent pending. We also have several international patents covering the same subject matter as the U.S. patents. Our licensees have rights to use certain patents as defined in their respective license agreements. As of December 27, 2008, none of our licensees are producing products under license agreements signed previously, and we do not expect the license agreements in place to generate additional license revenues in the future.

We intend to continue to apply for domestic and foreign patent protection in appropriate cases. In other cases, we believe we are better served by reliance on trade secret protection. In all cases, we seek protection for our technological developments to preserve our competitive position.

Backlog and Contracts

As of December 27, 2008, we had a total backlog of approximately \$8.6 million consisting of product backlog of \$7.9 million, and backlog remaining on the first-year funding under the Cooperative Agreement with the US Army of \$691 thousand.

The product backlog as of December 29, 2007 was approximately \$6.4 million. We shipped 100% of the year-end 2007 product backlog in 2008.

Competition

We have developed and expect to continue to develop products for a number of different end markets and we will encounter competition from different producers of metal-matrix composites and other competing materials.

We believe that the principal competitive factors in our end markets today include technical competence, product performance, quality, reliability, price, corporate reputation, and strength of sales and marketing resources. We believe our proprietary processes, reputation, and the price at which we can offer products for sale will enable us to compete successfully in the many electronics end markets. However, many of the American and foreign companies now producing or developing metal-matrix composites have far greater financial and sales and marketing resources than we do which may enable them to develop and market products which would compete against those developed by us.

Government Regulation

We produce non-nuclear, non-medical hazardous waste in our development and manufacturing operations. The disposal of such waste is governed by state and federal regulations. Various customers, vendors, and collaborative development agreement partners of CPS may reside abroad, thereby possibly requiring export and import of raw materials, intermediate products, and finished products, as well as potential technology transfer abroad under collaborative development agreements. These types of activities are regulated by bureaus within the Departments of Commerce, State and Treasury.

In 2008, the Company entered into a cooperative agreement with the US Army Research Laboratory to perform research and development concerning hybrid metal matrix composite encapsulated ceramic armor technology. The Cooperative Agreement is a four-year agreement which is 95% funded by the US Department of Defense and 5% funded by CPS.

Revenues from this Cooperative Agreement are recognized proportionally as costs are incurred. We are reimbursed for reasonable and allocable costs up to the reimbursement limits set by the Cooperative Agreement. All payments to the Company for work performed on this Cooperative Agreement are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments are recognized in the period made.

Employees

As of December 27, 2008, we had 130 full-time employees and 3 part-time employees, of whom 120 were engaged in manufacturing and engineering and 13 in sales and administration. We also employ temporary employees as needed to support production and program requirements.

None of our employees is covered by a collective bargaining agreement. We consider our relations with our employees to be excellent.

Item 1A. Risk Factors.

We are heavily dependent on the electronics industry and changes in the industry could harm our business and operating results.

The electronics industry is subject to economic cycles and is currently experiencing recessionary pressures, and is likely in the future to experience recessionary periods. A protracted general recession in the electronics industry could have a material adverse effect on our business, financial condition and results of operations.

Our operating results may fluctuate substantially, which may cause our stock price to fall.

Our quarterly and annual results of operations have varied in the past, and our operating results may vary significantly in the future due to a number of factors including, but not limited to, the following: timing of orders from major customers; mix of products and services; pricing and other competitive pressures; delays in prototype shipments, economic conditions in the electronics industry, raw material costs, and our ability to time expenditures in anticipation of future revenues.

Some executive officers and key personnel are critical to our business and these key personnel may not remain with the Company in the future.

Our success depends upon the continued service of some executive officers and other key personnel. Our employees are not bound by employment agreements, and there can be no assurance that the Company will retain its officers and key employees.

We may need additional capital in the future, which may not be available.

If our capital resources are insufficient to meet future capital requirements, we will have to raise additional funds. The sale of equity or convertible debt securities in the future may be dilutive to our shareholders. If we are unable to obtain adequate funds on reasonable terms, we may be required to curtail operations significantly or to obtain funds by entering into financing agreements on unattractive terms.

The trading price of our common stock may be volatile.

The trading prices of our common stock has been and could in the future be subject to significant fluctuations in response to variations in quarterly operating results, developments in the electronics industry, changes in general economic conditions and economic conditions in the electronics industry, and other factors. In addition, the stock market in recent years has experienced significant price and volume fluctuations which have affected the market prices of technology companies and which have been unrelated to or disproportionately impacted by the operating performance of those companies. These broad market fluctuations may cause the market price of our common stock to decline.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties.

All of our manufacturing, engineering, sales and administrative operations are located in a leased facility in Norton, Massachusetts. The Company entered into a 10-year lease for the Norton facilities effective on March 1, 2006. The leased facilities comprise approximately 38 thousand square feet. Prior to entering into this lease, the Company was renting a portion of the facilities as a tenant-at-will.

Item 3. Legal Proceedings.

We are not a party to any litigation which could have a material adverse effect on us or on our business and we are not aware of any pending or threatened material litigation against us.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 27, 2008.

Part II

Item 5. Market for Registrant's Common Stock and Related Stockholder Matters.

On December 27, 2008, we had approximately 850 shareholders. The high and low closing bid prices of our common stock for each quarter during the years ended December 27, 2008 and December 29, 2007 are shown below.

	<u>2008</u>		<u>2007</u>	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
1st Quarter	\$ 2.60	\$ 2.05	\$ 2.95	\$ 1.45

2nd Quarter	\$ 2.20	\$ 1.75	\$ 4.00	\$ 2.30
3rd Quarter	\$ 2.10	\$ 1.55	\$ 3.75	\$ 2.30
4th Quarter	\$ 2.01	\$ 1.10	\$ 2.90	\$ 2.05

CPS has never paid cash dividends on our Common Stock. We currently plan to reinvest our earnings, if any, for use in the business and do not intend to pay cash dividends in the foreseeable future. Future dividend policy will depend, among other factors, upon our earnings and financial condition.

Our Common Stock is traded on NASD's Over-the-Counter Bulletin Board (OTCBB) under the symbol CPSH.OB

Item 6. Selected Financial Data

The following selected financial data of CPS should be read in conjunction with the financial statements and related notes filed as part of this Annual Report on Form 10-K. Amounts are in thousands except per share amounts.

SELECTED FINANCIAL DATA (\$000)

For the Fiscal Year:	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Summary of Operations					
Product Revenue	\$14,456	\$12,447	\$11,908	\$7,019	\$6,835
License and Royalty Revenue	--	--	--	137	8
Cooperative Agreement Revenue	357	--	--	--	--
Operating Expenses	13,429	11,496	10,387	6,834	5,775
Operating Income (Loss)	1,384	950	1,520	322	1,068
Other Income (Expense), Net	(44)	(60)	(30)	(25)	(28)
Net Income (Loss) Before Taxes	1,340	890	1,490	297	1,040
Provision (Benefit) for Income Taxes	(134)	(58)	(288)	10	--
Net Income (Loss)	1,474	949	1,778	287	1,040
Net Income (Loss) Per Basic Common Share	\$0.12	\$0.08	\$0.14	\$0.02	\$0.08
Weighted Average Basic Number of Common Shares Outstanding	12,613	12,543	12,473	12,308	12,293
Net Income (Loss) Per Diluted Common Share	\$0.11	\$0.07	\$0.14	\$0.02	\$0.08
Weighted Average Diluted Number of Common Shares Outstanding	13,243	13,299	13,067	12,832	12,761

Year-End Position

Working Capital	4,663	3,549	\$2,971	\$1,972	\$1,660
Total Assets	8,367	7,007	6,389	3,670	3,246
Long-term Obligations	152	274	246	312	243
Stockholders Equity	\$6,981	\$5,406	\$4,381	\$2,551	\$2,242

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SELECTED QUARTERLY FINANCIAL DATA

	First Fiscal <u>Quarter</u>	Second Fiscal <u>Quarter</u>	Third Fiscal <u>Quarter</u>	Fourth Fiscal <u>Quarter</u>
2008				
Total Revenues	\$3,415	\$4,472	\$3,581	\$3,346
Gross Margin	\$1,062	\$1,370	\$793	\$759
Net Income	\$423	\$567	\$165	\$320
Net Income Per Basic Share	\$0.03	\$0.05	\$0.01	\$0.03
Net Income Per Diluted Common Share	\$0.03	\$0.04	\$0.01	\$0.02
2007				
Total Revenues	\$3,140	\$3,067	\$3,082	\$3,157
Gross Margin	\$888	\$643	\$803	\$766
Net Income	\$340	\$132	\$225	\$252
Net Income Per Basic and Diluted Common Share	\$0.03	\$0.01	\$0.02	\$0.02

Our results of operations fluctuate from quarter to quarter. The fluctuations are caused by various factors, primarily fluctuations in the timing of customer demand for our products. Quarterly data may not sum to annual data due to rounding.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This document contains forward-looking statements, based on numerous assumptions, subject to risks and uncertainties. Although we believe that the forward-looking statements are reasonable, we do not and cannot give any assurance that our beliefs and expectations will prove to be correct. Many factors could significantly affect our operations and cause our actual results to be substantially different from our expectations. Those factors include, but are not limited to: (i) general economic and business conditions; (ii) customer acceptance of our products; (iii) materials and manufacturing costs; (iv) the financial condition of customers, competitors and suppliers; (v) technological developments; (vi) increased competition; (vii) changes in capital market conditions; (viii) governmental and business conditions in countries where our products are manufactured and sold; (ix) changes in trade regulations; (x) the effect of acquisition activity; (xi) changes in our plans, strategies, objectives, expectations or intentions; and (xii) other risks and uncertainties indicated from time to time in our filings with the Securities and

Exchange Commission. Actual results might differ materially from results suggested by any forward-looking statements in this report. We do not have an obligation to publicly update any forward-looking statements, whether as a result of the receipt of new information, the occurrence of future events or otherwise.

Overview

We provide advanced material solutions to the electronics, robotics, automotive, defense and other industries.

Our primary advanced material solution is metal matrix composites, a new class of materials which are a combination of metal and ceramic. CPS has a leading, proprietary position in metal matrix composites. Metal matrix composites have several superior properties compared to conventional materials including improved thermal conductivity, thermal expansion matching, stiffness and light weight, which enable higher performance and higher reliability in our customers' products.

The end markets which account for a majority of our sales today are all electronics markets: the high-performance microprocessor and application-specific integrated circuits market, the motor controller market and the cellular basestation market. Our products are typically in the form of housings, packages, lids, substrates, thermal planes, heat spreaders or baseplates, and are used in applications where thermal management and/or weight are important considerations.

In addition to electronics end markets, we are developing, manufacturing and marketing metal-matrix composite components for some structural end-markets including armor.

The objective of the Cooperative Agreement is to further develop large hybrid metal matrix composite modules which integrally combine metal matrix composites and ceramics by enveloping ceramic tiles with MMCs. This system offers a lighter weight, durable, multi-hit capable and cost competitive alternative to conventional steel, aluminum and ceramic based armor systems. CPS hybrid hard face armor modules are comprised of multiple materials completely enveloped within and mechanically and chemically bonded to lightweight and stiff aluminum metal matrix composites. The Company believes that its hybrid hard face armor tiles will find application in many military vehicles as well as armored commercial vehicles.

Our products are custom rather than catalog items. They are made to customers' blueprints and are used as components in systems built and sold by our customers. At any point in time our product mix will consist of some products with on-going production demand, and some products which are in the prototyping or evaluation stages at our customers. We seek to have a portfolio of products which include products in every stage of the technology adoption lifecycle at our customers. Our growth is dependent upon the level of demand for those products already in production, as well as our success in achieving new "design wins" for future products.

As a manufacturer of highly technical and custom products, we incur fixed costs needed to support the business, but which do not vary significantly with changes in sales volume. These costs include the fixed costs of applications engineering, tooling design and fabrication, process engineering, etc. Accordingly, particularly given our current size, changes in sales volume generally result in even greater changes in financial performance on a percentage basis as fixed costs are spread over a larger or smaller base. Sales volume is therefore a key financial metric used by management.

We believe the underlying demand for metal matrix composites is growing as the electronics and other industries desire higher performance, higher reliability, and reduced costs. We believe that we are well positioned to offer our solutions to current and new customers as these demands grow. In 2008 our top four customers accounted for 76% of revenue and the remaining 24% of revenue was derived from approximately 51 customers. In 2007, our top four customers accounted for 66% of revenue, and the remaining 34% of revenue was derived from approximately 45 other

customers.

Application of Critical Accounting Policies

Management prepares our financial statements in conformity with accounting principles generally accepted in the United States of America. As such, we are required to make certain estimates, judgments and assumptions that we believe are reasonable based upon the information available. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the periods presented. Our significant accounting policies are presented within Note 2 to the financial statements; the significant accounting policies which management believes are most critical to aid in fully understanding and evaluating our reported financial results include the following:

Revenue Recognition

We recognize revenue in accordance with the provisions of the Securities and Exchange Commission Staff Accounting Bulletin ("SAB") No. 104 which establishes guidance in applying generally accepted accounting principles to revenue recognition in financial statements. SAB No. 104 requires that four basic criteria must be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services rendered; (3) the price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured.

Our shipping terms are customarily FOB shipping point. Revenues for products sold in the normal course of business are recognized upon shipment when delivery terms are FOB shipping point and all other revenue recognition criteria have been met.

We have entered into consigned inventory agreements with several customers. For product shipped under consigned inventory agreements, we recognize revenue when the customer notifies us that they have picked the product from the consigned inventory. Of the total finished goods inventory of \$943,122 at December 27, 2008, \$629,736 was located at the Company's facility in Norton, Massachusetts and \$313,386 was located at customers' locations pursuant to consigned inventory agreements. Of the total finished goods inventory of \$885,680 at December 29, 2007, \$370,883 was located at the Company's facility in Norton, Massachusetts and \$514,797 was located at customers' locations pursuant to consigned inventory agreements.

Advance payments in excess of revenue recognized are recorded as deferred revenue.

In 2008, we entered into a cooperative agreement with the US Army Research Laboratory to perform research and development concerning hybrid metal matrix composite encapsulated ceramic armor technology. The Cooperative Agreement is a four-year agreement which is 95% funded by the US Department of Defense and 5% funded by CPS.

Revenues on this Cooperative Agreement are recognized proportionally as costs are incurred. We are reimbursed for reasonable and allocable costs up to the reimbursement limits set by the Cooperative Agreement. All payments to the Company for work performed on this Cooperative Agreement are subject to audit and adjustment by the Defense Contract Audit Agency. Adjustments are recognized in the period made.

While this Cooperative Agreement extends for four years, funding is provided incrementally on a year-to-year basis if contract terms are met and Congress has authorized the funds. As of December 27, 2008, the Company has recognized \$357,213 of revenue on the Cooperative Agreement. The total estimated funding to be received over the four year term is \$8.34M. The Company's cost share amounts to \$439,000 over the term of the Cooperative Agreement. Should funding be tentatively delayed or if business initiatives change, we may choose to devote resources to other activities, including internally funded research and development. The Company was approved for \$1.048M in funding of which \$357K was invoiced in 2008.

Accounts Receivable

We perform ongoing monitoring of the status of our receivables based on the payment history and the credit worthiness of our customers, as determined by a review of their current credit information. Management continuously monitors collections and payments from customers and maintains a provision for estimated credit losses based upon historical experience and any specific customer collection issues that have been identified. While such credit losses have historically been low and within expectations, there is no guarantee that we will continue to experience the same credit loss rates as in the past. A significant change in the liquidity or financial position of one of our major customers could have a material adverse impact on the collectibility of accounts receivable and future operating results.

Inventory

We value our inventory at the lower of cost to manufacture or current estimated market value, whichever is less.

We follow a build to order business model; we manufacture product to ship against specific purchase orders, only rarely do we manufacture product in advance of anticipated purchase orders. In addition, 100% of our products are custom, meaning they are produced to a customer's blueprint and generally cannot be used for any other purpose. Purchase orders generally have cancellation provisions which vary from customer to customer, but which can result occasionally in CPS producing product which the customer is not obligated to purchase. However, once a product has gone into production most customer orders are recurring and order cancellations are very rare therefore no reserve is needed for obsolete inventory.

The level of inventory fluctuates for several reasons. Some customers place a blanket purchase order and then request that we maintain certain inventory levels so we can ship immediately upon receiving a shipment release from them. In other cases we may deliberately produce product for which the customers' shipment dates are in the future to more efficiently schedule production resources. Many customers provide us with forecasts and our inventory levels may fluctuate as we adjust production schedules to changes in customer forecasts.

In determining inventory value we use the first-in, first-out method and state inventory at the lower of cost or market. As a result of the fact that our inventory is customer specific, if a customer order is cancelled it is likely that we would be unable to sell inventory manufactured to meet that order to another customer. Likewise, if we did manufacture product in advance of anticipated purchase orders and those orders did not materialize, it is likely that we would be unable to sell that inventory to another customer. The value of our work in process and finished goods is based on the assumption that specific customers will take delivery of specific items of inventory. We have experienced no losses to date as a result of customer cancellations and we have no reserves against such cancellations.

Property and Equipment

Property and equipment are stated at cost. Depreciation of equipment is calculated on a straight-line basis over the estimated useful life, generally five years for production equipment and three to five years for furniture and office equipment. Amortization of equipment under capital leases is calculated on a straight-line basis over the life of the lease. Maintenance and repairs are charged to expense as incurred. Upon retirement or sale, the cost and related accumulated depreciation or amortization are removed from their respective accounts. Any gains or losses on the disposition of property and equipment are included in the results of operations in the period in which they occur.

Income Taxes

We record deferred tax assets and liabilities based on the net tax effects of tax credits, operating loss carryforwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. We assess the likelihood that our deferred tax assets will be recovered from future taxable income and we establish a valuation allowance to reduce deferred tax assets to an amount which

we believe to be more likely than not realizable. The valuation allowance is based on our estimates of taxable income by jurisdiction in which we operate and the period over which our deferred tax assets will be recoverable.

Results of Operations

Revenue in 2008 of \$14.8 million was 19% higher than 2007 revenue of \$12.4 million. The increase in revenue in 2008 came from higher demand for heat sinks for integrated circuits particularly in the first half of the year, higher demand for baseplates for motor controllers throughout the year, and from revenue in the fourth quarter from the Cooperative Agreement the Company entered into with the Army Research Laboratory in September.

The Cooperative Agreement is a four-year agreement which is 95% funded by the US Department of Defense and 5% funded by CPS. The Department of Defense funding is in support of the Future Combat System and is Manufacturing Technology ("ManTech") funding. The total estimated amount of the Cooperative Agreement is \$8.8 million, of which the total estimated Government funding is \$8.3 and the total estimated CPS funding is \$439 thousand. The funding is authorized on a yearly basis, and the first year government funding is \$1 million. The Cooperative Agreement became effective on September 2, 2008.

In 2008, research and development costs were incurred related to the Cooperative Agreement with the US Army. These costs consist of labor, including applicable overhead expenses, materials and other costs associated with our Cooperative Agreement. Total expenditures incurred in 2008 under this Cooperative Agreement amounted to \$376,014 of which \$310,451 is included in cost of research and development under cooperative agreement in the Statement of Income. \$357,213 of these costs were funded by the US Army in 2008 and is classified as research and development cooperative agreement revenues in the Statement of Income. The \$18,801 funded by CPS consists of \$16,340 of direct and indirect costs in connection with the contract included in costs of research and development under cooperative agreements and the Company's allocated portion of general and administrative expenses allowed under the contract included in selling, general and administrative expenses of \$2,461.

Revenue in 2007 of \$12.4 million increased by 5% from revenue in 2006 of \$11.9 million. The increase in demand in 2007 was the net effect of increases in demand for baseplates for motor controllers and certain heat sinks for integrated circuits in the first half of their life cycle, offset by lower demand for certain heat sinks for integrated circuits and baseplates for cellular telephone applications which are in the last half of their life cycle.

Operating Costs

Total operating costs were \$13.4 million, \$11.5 million and \$10.4 million for the fiscal years 2008, 2007 and 2006, respectively.

Operating costs increased in 2008 compared to 2007 by \$1.9 million or 17% due to higher labor and material costs related to the higher shipment levels, costs incurred in connection with the Cooperative Agreement and to higher sales commissions paid to manufacturers representatives due to changes in product mix.

Operating costs increased in 2007 compared to 2006 by \$1.1 million or 11% due to changes in product mix, higher employment levels maintained in anticipation of growth, and slightly higher shipments.

Cost of sales for 2008, 2007 and 2006 were \$10.8 million, \$9.3 million and \$8.6 million respectively. In 2008, cost of sales for the Cooperative Agreement of \$310 thousand includes a portion of the 5% cost share from CPS of \$16 thousand. The increase in cost of sales in 2008 compared to 2007 was primarily the result of increases in labor and materials associated with increased shipments as well as the costs resulting from the Cooperative Agreement.

The increase in cost of sales in 2007 compared to 2006 was primarily the result of increases in labor and materials associated with increased shipments and changes in product mix.

Gross margins on product revenue for 2008, 2007 and 2006 were 27.2%, 24.9% and 27.5% respectively. The increase in gross margin on product revenue in 2008 was primarily the result of fixed costs being spread over a larger revenue base.

The decrease in gross margin in 2007 was primarily the result of changes in product mix.

Selling, general and administrative (SG&A) expenses for 2008, 2007 and 2006 were \$2.6 million, \$2.2 million and \$1.8 million, respectively. The increase in SG&A expense in 2008 compared to 2007 is primarily the result of increased sales compensation related to increased headcount in sales as well as increased sales commissions paid to manufacturers representatives.

The increase in SG&A expense in 2007 compared to 2006 is primarily the result of increased sales commissions (which in turn resulted from changes in product mix), increased sales compensation, and increased sales promotion.

Other Income and Expense, Net

The Company had net other expense of \$44 thousand, \$60 thousand and \$30 thousand for 2008, 2007 and 2006, respectively. These amounts were primarily interest expense for production equipment on capital leases, offset partially by interest income on cash balances.

Income Taxes

The Company recorded an income tax benefit of \$134 thousand in 2008 consisting of a deferred tax benefit of \$299 thousand resulting from most significantly the reduction in the valuation allowance provided on our net operating loss carryforwards based on our estimate of future taxable income offset by \$165 thousand of current federal and state tax expense. The current federal tax expense of \$27 thousand relates to alternative minimum tax. The Company incurred \$137 thousand of current state tax expense in 2008.

The Company recorded an income tax benefit of \$58 thousand in 2007 consisting of a deferred tax benefit of \$144 thousand resulting from most significantly the reduction in the valuation allowance provided on our net operating loss carryforwards based on our estimate of future taxable income offset by \$86 thousand of current federal and state tax expense. The current federal tax expense of \$22 thousand relates to alternative minimum tax. The Company incurred \$64 thousand of current state tax expense in 2007.

The Company recorded an income tax benefit of \$288 thousand in 2006 consisting of a deferred tax benefit of \$400 thousand resulting from the reduction in the valuation allowance provided on our net operating loss carryforwards based on our estimate of future taxable income offset by \$112 thousand of current federal and state tax expense. The current federal tax expense of \$29 thousand relates to alternative minimum tax.

Certain provisions of the Internal Revenue Code limit the annual utilization of net operating loss carryforwards if a change in ownership as defined, occurs. The Company believes that it did not have an ownership change as defined through the year ending December 27, 2008; therefore, at December 27, 2008 all net operating loss carryforwards are available to offset future taxable income.

Liquidity and Capital Resources

Cash on hand at year-end 2008 of \$1.16 million reflects a 145% increase from cash on hand at year-end 2007 of \$472 thousand. The increased cash is a result of higher revenues in 2008, particularly in the second quarter of 2008 compared to the same period a year ago, as well as cash conservation measures implemented by management in the third and fourth quarters of 2008 as world-wide macro economic conditions worsened. In 2008, the Company generated cash of \$1.7 million from operations and \$74 thousand from the issuance of common stock, but consumed \$742 thousand in purchases of property and equipment and made principal payments of \$353 thousand on its lease obligations.

Cash on hand at year-end 2007 of \$472 thousand reflects a 9% decrease from cash on hand at year-end 2006 of \$518 thousand. Management considers this difference in cash balances to be well within the range of normal business fluctuations. The Company has identified potential capital equipment purchases to effect process improvements and/or cost reductions, and management funds these projects as the cash balance allows. In 2007 the Company generated \$803 thousand from operations and \$21 thousand from the issuance of common stock, but consumed \$537 thousand in purchases of property and equipment and made principal payments of \$332 thousand on its lease obligations.

In May 2008, the Company renewed its \$1 million revolving line of credit and its \$1.5million lease line with Sovereign Bank. The line of credit is secured by the accounts receivable and other assets of the Company. The revolving line of credit has a one-year term although management believes it is likely that Sovereign Bank and the Company will renew the line at the end of the term. In 2008 there were no borrowings under this line of credit.

The \$1.5 million lease line with Sovereign Bank calls for a separate schedule for each item placed on the lease line. As of year-end 2008, the Company had \$653 thousand net carrying value of capital equipment financed by the Sovereign lease line, each schedule with a three-year term and a one-dollar buyout at the end of the term. As of year-end 2008 the Company had \$1.08 million available remaining on the Sovereign lease line.

Management believes that cash flows from operations, existing cash balances and the leasing and credit line in place with Sovereign Bank will be sufficient to fund our cash requirements for the foreseeable future. However, there is no assurance that we will be able to generate sufficient revenues or reduce certain discretionary spending in the event that planned operational goals are not met such that we will be able to meet our obligations as they become due.

Contractual Obligations

Our contractual obligations at year-end 2008 consist of the following:

Payments Due by Period

	<u>Total</u>	<u>Less than one year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>More than 5 years</u>
Capital lease obligations, including interest	\$ 446,768	\$ 287,619	\$ 159,149	None	None
Operating lease obligations	\$ 982,000	\$ 118,750	\$ 386,000	\$ 288,000	\$ 189,250

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Recent Accounting Pronouncements

A summary of recent accounting standards is included in Note 2 to the financial statements.

Inflation

Inflation had no material effect on the results of operations or financial condition during 2008, 2007 or 2006. There can be no assurance however, that inflation will not affect our operations or business in the future.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

We are not significantly exposed to the impact of interest rate changes and foreign currency fluctuations. We have not used derivative financial instruments.

Item 8. Financial Statements and Supplementary Data

See Index to the Company's Financial Statements and the accompanying notes which are filed as part of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Under the direction of our Chief Executive Officer and Chief Financial Officer, management has carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as such item is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of December 27, 2008.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting in the fourth quarter of fiscal 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9A(T) Controls and Procedures

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company, as such term is defined in Rule 13a-15(f) of the Exchange Act. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures of the Company are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the direction of our Chief Executive Officer and Chief Financial Officer, management has assessed the effectiveness of the Company's internal control over financial reporting as of December 27, 2008. In making this assessment, management used the criteria set forth in the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management concluded that the Company's internal control over financial reporting was effective as of December 27, 2008.

This annual report does not include an attestation report of the company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management's report in this annual report.

Item 9B. Other Information

The Company had no information required to be disclosed in a report on Form 8-K during the fourth quarter of the year covered by this Form 10-K that has not been so reported.

Part III

Item 10. Directors, Executive Officers and Corporate Governance

Board Members and Executive Officers

Directors of the Company are elected annually and hold office until the next annual meeting of stockholders and until their respective successors are duly elected and qualified. The executive officers of the Company are appointed by the Board of Directors and hold office until their respective successors are duly elected and qualified.

The names of the directors and executive officers of the Company and certain information about them as of December 29, 2007 are listed below.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Grant C. Bennett	54	

President, Chief Executive Officer, Treasurer and
Director

Francis J. Hughes, Jr. 58 Director

Daniel Snow 37 Director

Mr. Grant C. Bennett has held the positions of President, Chief Executive Officer and Director and Treasurer of the Company since September, 1992. Prior to that time, he served as Vice President, Sales and Marketing of the Company from November, 1985 to September, 1992. Before joining CPS, Mr. Bennett was a consultant at Bain & Company, a Boston-based management consulting firm. Mr. Bennett has an MS degree from MIT.

Mr. Francis J. Hughes, Jr. has served as President of American Research and Development Corporation ("ARD"), a venture capital firm, since 1992. Mr. Hughes joined ARD's predecessor organization in 1982, and became Chief Operating Officer in 1990. Mr. Hughes has co-founded and served as a General Partner of the following venture capital funds: ARD I, L.P., ARD II, L.P. (July, 1985), ARD III, L.P. (April, 1988), Hospitality Technology Fund, L.P. (June, 1991) and Egan-Managed Capital, L.P. (February, 1997). Mr. Hughes has served as a Director of the Company since 1993. Mr. Hughes has an MS degree from MIT and an MBA from the Harvard Business School.

Dr. Daniel C. Snow has served on the faculty of the Harvard Business School since 2004, where he teaches a course on Operations Strategy. His research focuses on technological innovation, specifically furthering the understanding of the complex interplay between old and new technologies. Professor Snow holds an MBA from Brigham Young University's Marriott School of Management, and a PhD from the University of California, Berkeley. Professor Snow previously worked for Ford Motor Company as a financial analyst.

There are no family relationships between or among any executive officers or directors of the Company.

Board Independence

The Board has determined that Messrs. Hughes and Snow are independent as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards.

Board Meetings and Attendance

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The Board held six meetings during the fiscal year ended December 27, 2008. Each Board member attended more than 75% of the meetings of the Board and of the committees on which he served which were held during the period for which he was a director or committee member.

Committees

The Board has an Audit Committee and a Compensation Committee, but not a Nominating Committee.

Audit Committee

The Company has a separately designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Francis J. Hughes, Jr. and Daniel C. Snow. The Audit Committee met four times in fiscal 2008.

The Board of Directors has determined that Francis J. Hughes, Jr. and Daniel C. Snow are both audit committee financial experts as defined by Item 401(h) of Regulations S-K of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Exchange Act.

Compensation Committee

Each member of the Compensation Committee is independent as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards. The Compensation Committee makes recommendations concerning salaries and incentive compensation, awards equity compensation to employees and consultants under our equity incentive plans and otherwise determines compensation levels and performs other functions regarding compensation that are delegated by the Board. The members of the Compensation Committee are Daniel C. Snow and Francis J. Hughes, Jr. The Compensation Committee met two times in fiscal 2008.

Selection of New Directors

The Board does not have a nominating committee. The Board itself is responsible for selecting its own members and recommending them for election by the shareholders.

Shareholder Communication with the Board of Directors

Any shareholder who desires to communicate with the Board, non-management directors as a group, or any individual director, may send a letter addressed to the same, c/o VP Administration, CPS Technologies Corporation, 111 South Worcester Street, Norton, MA 02766. The VP Administration has been instructed by the Board to forward such communication directly to the addressee(s) unopened.

Directors' Compensation

The Company adopted the 1999 Stock Incentive Plan ("1999 Plan") on January 22, 1999. Under the terms of the 1999 Plan, all of the Company's employees, officers, directors, consultants and advisors are eligible to be granted options, restricted stock awards, or other stock-based awards. In 2008, upon his election to the Board of Directors, Dr. Snow was granted options to purchase 8,000 shares of the Company's common stock. The options granted are nonstatutory stock options exercisable at the fair market value of the stock on the date of grant one year from the date of grant, and expire ten years from the date of grant. The 1999 Plan includes provisions for the acceleration of vesting in the event of a change in control of the Company. The Company measures the fair value of the stock awards on the date of grant and the cost is recognized over the requisite service period.

Outside directors may receive expense reimbursements for attending board and committee meetings. Directors who are officers or employees of the Company do not receive any additional compensation for their services as directors.

Code of Ethics

We have adopted a code of business conduct and ethics for directors, officers, (including the principal executive officer, principal financial officer and treasurer) and employees, known as the CPS Code of Conduct. The CPS Code of Conduct is available by contacting our human resource department.

Item 11. Executive Compensation

Executive Officer Summary Compensation Table

The following table shows compensation earned during the three most recent fiscal years by our chief executive officer, chief financial officer, and all other officers whose salary and bonus exceeded \$100,000. Grant Bennett is both our chief executive officer and chief financial officer. For the purpose of executive compensation and related person disclosure, we refer to these individuals collectively as the Named Executive Officers.

NAMED EXECUTIVE OFFICER SUMMARY COMPENSATION TABLE

Name & <u>Position</u>	<u>Year</u>	Salary <u>(\$)</u>	Bonus <u>(\$)</u>	Stock Awards <u>(\$)</u>	Option Awards <u>(\$)</u>	Non-Equity Incen-tive Plan Com-pen-sation <u>(\$)</u>	Change in Pension Value and Non	All Other Com-pen-sation <u>(\$)</u>
							qualified Deferred Com-pensation Earnings <u>(\$)</u>	
Grant	2008	\$136,298	\$20,051	\$0	\$0	\$0	\$0	\$0
Bennett	2007	\$131,251	--	\$0	\$0	\$0	\$0	\$0
CEO, CFO	2006	\$126,742	\$70,000	\$0	\$0	\$0	\$0	\$0
Richard	2008	\$134,789	\$10,051	\$0	\$0	\$0	\$0	\$0
Adams	2007	\$125,841	--	\$0	\$0	\$0	\$0	\$0
VP Operations	2006	\$104,761	\$36,420	\$0	\$0	\$0	\$0	\$0
Mark	2008	\$104,677	\$5,054	\$0	\$0	\$0	\$0	\$0
Occhionero	2007	\$100,901	--	\$0	\$0	\$0	\$0	\$0
VP Marketing	2006	\$ 97,015	\$16,765	\$0	\$0	\$0	\$0	\$0
Cheryl	2008	\$95,885	\$5054	\$0	\$0	\$0	\$0	\$0
Oliveira	2007	\$87,716	--	\$0	\$0	\$0	\$0	\$0
VP Sales	2006	\$82,339	\$10,270	\$0	\$0	\$0	\$0	\$0

Change-of-Control Agreements

None of the Named Executive Officers described in the Summary Compensation Table above have entered into a change-of-control agreement with the Company. All options granted to all employees, including the officers listed above, are subject to accelerated vesting in the event of a change of control as described in the option plans.

Stock

Option Grants And Exercises

No stock options were granted to Named Executive Officers or any other Company employees in fiscal 2008.

In fiscal 2008 a total of 8,000 stock options were granted to Daniel C. Snow upon his election to the Company's Board of Directors.

No stock options were exercised by Named Executive Officers during fiscal 2008.

AGGREGATED OPTION EXERCISES IN FISCAL 2008
AND FISCAL 2008 YEAR END OPTION VALUES FOR
NAMED EXECUTIVE OFFICERS

<u>Name</u>	<u>Shares Acquired On Exercise (#)</u>	<u>Value Realized (\$)</u>	<u>Number of Securities Underlying Unexercised Options at December 27, 2008</u>			<u>Value of Unexercised In-the-Money Options at December 27, 2008</u>		
			<u>Exer-cisable</u>	<u>Exer-cise Price</u>	<u>Expir-ation Date</u>	<u>Un- exer-cisable</u>	<u>Exer-cisable</u>	<u>Un- exer-cisable</u>
Grant Bennett	0	\$0	0	--	--	0	\$0	\$0
Richard Adams	0	\$0	348,750	\$0.30 to \$1.25	August 20, 2009 through January 12, 2015	0	\$216,912	\$0
Mark Occhionero	0	\$0	165,500	\$0.30 to \$1.25	August 20,2009 Through January	0	\$102,225	\$0

12, 2015

Cheryl Oliveira	0	\$0	50,000	\$1.37	August 8, 2015	0	0	\$0
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The value of unexercised in-the-money options is based on the fair market value of our common stock as of December 27, 2008 of \$1.20 per share, minus the exercise price, multiplied by the number of shares underlying the option.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth certain information, as of December 27, 2008, with respect to the beneficial ownership of the Company's Common Stock by (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock, (ii) each Director of the Company, (iii) each Executive Officer of the Company named above in the Summary Compensation Table, and (iv) all Directors and Officers as a group:

<u>Name and Address of Beneficial Owner</u>	<u>Common Stock Beneficially Owned</u>	<u>Notes (1)</u>	<u>Percentage of Shares of Common Stock Outstanding</u>
ARD Master, L.P. 85 Devonshire Street 6 th Floor Boston, MA 02109	2,184,789	(2)	17.3%
Norman J. Wechsler P.O. Box 5123 Mt. Crested Butte, CO 81225	1,530,629	(3)	12.1%
DIRECTORS AND OFFICERS:			
Grant C. Bennett Director & Officer	1,576,554		12.5%
Richard W. Adams Vice President Operations and Engineering	383,750	(4)	3.0%
Mark A. Occhionero Vice President Marketing and Senior Scientist	180,900	(5)	1.4%
Cheryl Oliveira	50,000	(6)	*

Vice President Sales

Daniel C. Snow Director	8,000	(7)	*
Francis J. Hughes, Jr. Director	2,256,789	(8)	17.8%
	-----		-----
All directors and officers as a group (6 persons)	4,455,993	(9)	35.2%
	=====		=====

*Less than 1% of the total number of outstanding shares of Common Stock.

1. The inclusion herein of any shares of Common Stock deemed beneficially owned does not constitute an admission of beneficial ownership of those shares. Unless otherwise indicated, each stockholder referred to above has sole voting and investment power with respect to the shares listed.
2. Consists of 2,184,789 shares owned by ARD Master L.P., Excludes options to purchase 72,000 shares of common stock held by Mr. Hughes.
3. Consists of 59,200 shares owned by WCI and 1,471,429 shares owned by CYB Master LLC. Mr. Wechsler may be deemed to be the beneficial owner of these shares by virtue of being the sole person in a position to direct the voting and investment decisions of both CYB and WCI.
4. Consists of 35,000 shares owned by Mr. Adams and options to purchase 348,750 shares of common stock.
5. Consists of 15,400 shares owned by Dr. Occhionero and options to purchase 165,500 shares of common stock.
6. Consists of options to purchase 50,000 shares of common stock.
7. Consists of options to purchase 8,000 shares of common stock
8. Consists of shares described in Footnote 2 above owned by ARD Master, L.P., and options to purchase 72,000 shares of common stock held by Mr. Hughes.
9. Consists of all shares and options to purchase shares owned by Messrs. Hughes, Snow, Bennett, Adams, Occhionero and Ms. Oliveira.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers, and persons who own more than ten percent of a registered class of our equity securities to file with the Securities and Exchange Commission initial reports of ownership and reports of changes in ownership of our common stock and other equity securities. Officers, directors and greater than ten percent stockholders are required by Securities and Exchange Commission regulations to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on a review of the copies of the reports furnished to us and written representations that no other reports were required, during the fiscal year ended December 27, 2008, all Section 16(a) filing requirements applicable to our officers, directors and greater than ten percent stockholders were complied with and no reports or transactions were filed late.

COMPENSATION COMMITTEE REPORT

General

Compensation of our senior executives is determined by the Compensation Committee of the Board, or the Committee. The Committee, comprised entirely of independent directors as defined in Rule 4200(a)(15) of the National Association of Securities Dealers' listing standards, meets to set annual salaries in advance and bonuses for the current year, to review annual goals and to reward outstanding annual performance of executive officers and to grant stock options pursuant to our stock plans. The Committee has considered executive officers' compensation matters at several meetings in 2008. During those meetings, the Committee consulted with senior management, reviewed and approved corporate goals and objectives and Funded Debt, and (ii) goodwill, trade names, trademarks, patents, organizational expenses and other like intangibles we as well as our consolidated Subsidiaries own and computed in accordance with generally accepted accounting principles.

Debt means debt issued, assumed or guaranteed by us for money borrowed.

Funded Debt means (i) all indebtedness for money borrowed having a maturity of more than 12 months from the date as of which the determination is made or having a maturity of 12 months or less but by its terms being renewable or extendible beyond 12 months from such date at the option of the borrower and (ii) rental obligations payable more than 12 months from such date under leases which are capitalized in accordance with generally accepted accounting principles (such rental obligations to be included as Funded Debt at the amount so capitalized and to be included for the purposes of the definition of Consolidated Net Tangible Assets both as an asset and as Funded Debt at the amount so capitalized).

Lien means any lien, mortgage or pledge.

Person means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

Table of Contents

Principal Property means any real property we or any Subsidiaries own or hereafter acquire (including related land and improvements thereon and all machinery and equipment included therein without deduction of any depreciation reserves) of which on the date as of which the determination is being made exceeds 2% of Consolidated Net Tangible Assets other than (i) any property which in the opinion of the Board of Directors is not of material importance to the total business conducted by us and our Subsidiaries as an entirety or (ii) any portion of a particular property which is similarly found not to be of material importance to the use or operation of such property.

Subsidiary means a Person more than 50% of the outstanding voting stock of which, or similar ownership interest in which, we or one or more other Subsidiaries own, directly or indirectly.

Events of Default

We refer you to the section entitled **Description of Debt Securities** in the accompanying prospectus for a description of events of default applicable to the notes. In addition to the foregoing, an event of default occurs with respect to a series of notes upon a failure to pay at maturity or the acceleration of any of our or our subsidiaries indebtedness, other than non-recourse indebtedness, at any one time in an amount in excess of \$25 million, if the indebtedness is not discharged or the acceleration is not annulled within 30 days after written notice to us by the trustee or the holders of at least 25% in principal amount of the outstanding notes of that series.

Book-Entry, Delivery and Form

The notes initially will be issued in book-entry form and represented by one or more global notes. The global notes will be deposited with, or on behalf of, The Depository Trust Company (**DTC** or **depository**), New York, New York and registered in the name of Cede & Co., the nominee of DTC. Unless and until it is exchanged for individual certificates evidencing notes under the limited circumstances described below, a global note may not be transferred except as a whole by the depository to its nominee or by the nominee to the depository, or by the depository or its nominee to a successor depository or to a nominee of the successor depository.

DTC has advised us that it is:

- a limited-purpose trust company organized under the New York Banking Law;
- a banking organization within the meaning of the New York Banking Law;
- a member of the Federal Reserve System;
- a clearing corporation within the meaning of the New York Uniform Commercial Code; and
- a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among its participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants accounts, which eliminates the need for physical movement of securities certificates. Direct participants in DTC include securities brokers and dealers, including underwriters, banks, trust companies, clearing corporations and other organizations. DTC is owned by a number of its direct participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, which we sometimes refer to as indirect participants, that clear transactions through or maintain a custodial relationship with a direct participant either directly or

Table of Contents

indirectly. The rules applicable to DTC and its participants are on file with the Securities and Exchange Commission, or the SEC.

Purchases of notes within the DTC system must be made by or through direct participants, which will receive a credit for those notes on DTC's records. The ownership interest of the actual purchaser of a note, which we sometimes refer to as a beneficial owner, is in turn recorded on the direct and indirect participants' records. Beneficial owners of notes will not receive written confirmation from DTC of their purchases. However, beneficial owners are expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the direct or indirect participants through which they purchased notes. Transfers of ownership interests in global notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in the global notes except under the limited circumstances described below.

To facilitate subsequent transfers, all global notes deposited with DTC will be registered in the name of DTC's nominee, Cede & Co. The deposit of notes with DTC and their registration in the name of Cede & Co. will not change the beneficial ownership of the notes. DTC has no knowledge of the actual beneficial owners of the notes. DTC's records reflect only the identity of the direct participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants are responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any legal requirements in effect from time to time.

Redemption notices will be sent to DTC or its nominee. If less than all of the notes are being redeemed, DTC will determine the amount of the interest of each direct participant in the notes to be redeemed in accordance with DTC's procedures.

In any case where a vote may be required with respect to the notes, neither DTC nor Cede & Co. will give consents for or vote the global notes. Under its usual procedures, DTC will mail an omnibus proxy to us as soon as possible after the record date. The omnibus proxy assigns the consenting or voting rights of Cede & Co. to those direct participants to whose accounts the notes are credited on the record date identified in a listing attached to the omnibus proxy.

Principal and interest payments on the notes will be made to Cede & Co., as nominee of DTC. DTC's practice is to credit direct participants' accounts on the relevant payment date unless DTC has reason to believe that it will not receive payment on the payment date. Payments by direct and indirect participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the account of customers in bearer form or registered in street name. Those payments will be the responsibility of participants and not of DTC or us, subject to any legal requirements in effect from time to time. Payment of principal and interest to Cede & Co. is our responsibility, disbursement of payments to direct participants is the responsibility of DTC, and disbursement of payments to the beneficial owners is the responsibility of direct and indirect participants.

Except under the limited circumstances described below, purchasers of notes will not be entitled to have notes registered in their names and will not receive physical delivery of notes. Accordingly, each beneficial owner must rely on the procedures of DTC and its participants to exercise any rights under the notes and the indenture.

Table of Contents

The laws of some jurisdictions may require that some purchasers of securities take physical delivery of securities in definitive form. Those laws may impair the ability to transfer or pledge beneficial interests in notes.

DTC is under no obligation to provide its services as depository for the notes and may discontinue providing its services at any time. Neither we nor the trustee will have any responsibility for the performance by DTC or its direct participants or indirect participants under the rules and procedures governing DTC.

As noted above, beneficial owners of notes generally will not receive certificates representing their ownership interests in the notes. However, if:

DTC notifies us that it is unwilling or unable to continue as a depository for the global notes or if DTC ceases to be a clearing agency registered under the Securities Exchange Act of 1934 at a time when it is required to be registered and a successor depository is not appointed within 90 days of the notification to us or of our becoming aware of DTC's ceasing to be so registered, as the case may be;

we determine, in our sole discretion, not to have the notes represented by one or more global notes; or

an event of default under the indenture has occurred and is continuing with respect to the notes, we will prepare and deliver certificates for the notes in exchange for beneficial interests in the global notes. Any beneficial interest in a global note that is exchangeable under the circumstances described in the preceding sentence will be exchangeable for notes in definitive certificated form registered in the names that the depository directs. It is expected that these directions will be based upon directions received by the depository from its participants with respect to ownership of beneficial interests in the global notes.

We obtained the information in this section and elsewhere in this prospectus supplement concerning DTC and DTC's book-entry system from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

Table of Contents**UNDERWRITING**

We and the underwriters for the offering named below have entered into an underwriting agreement and a pricing agreement with respect to the notes. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of notes indicated in the following table.

Underwriters	Principal Amount of Notes due 2013	Principal Amount of Notes due 2033
Goldman, Sachs & Co.	\$	\$
Salomon Smith Barney Inc.		
Banc of America Securities LLC		
J.P. Morgan Securities Inc.		
Wachovia Securities, Inc.		
Total	\$ 250,000,000	\$ 150,000,000

The underwriters are committed to take and pay for all of the notes being offered, if any are taken.

Each series of notes sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering prices of up to % of the principal amount of the Notes due 2013 and up to % of the principal amount of the Notes due 2033. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering price of up to % of the principal amount of the Notes due 2013 and up to % of the principal amount of the Notes due 2033. If all the notes are not sold at the initial offering prices, the underwriters may change the offering prices and the other selling terms.

Each series of notes is a new issue of securities with no established trading market. We have been advised by the underwriters that the underwriters intend to make a market in the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity of the trading market for the notes.

In connection with the offering of the notes, the underwriters may purchase and sell notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of notes than they are required to purchase in the offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of a series of notes while the offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

We estimate that our share of the total expenses of the offering of the notes, excluding underwriting discounts and commissions, will be approximately \$.

Table of Contents

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Some of the underwriters and their affiliates have performed certain investment banking and advisory and general financing, trustee and banking services for us from time to time for which they have received customary fees and expenses. The underwriters and their affiliates may, from time to time, engage in transactions with or perform services for us in the ordinary course of their business.

LEGAL MATTERS

Latham & Watkins LLP, Los Angeles, California, will pass upon the validity of the notes offered pursuant to this prospectus supplement for Avery Dennison. O Melveny & Myers LLP, Los Angeles, California, will pass upon certain legal matters for the underwriters.

EXPERTS

The financial statements incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 29, 2001, as amended, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

S-17

Table of Contents

PROSPECTUS

\$600,000,000

Avery Dennison Corporation

Debt Securities, Preferred Stock, Depositary Shares,

Common Stock and Warrants

We may offer and sell the securities from time to time in one or more offerings. This prospectus provides you with a general description of the securities we may offer.

Each time we sell securities we will provide a supplement to this prospectus that contains specific information about the offering and the terms of the securities. The supplement may also add, update or change information contained in this prospectus. You should carefully read this prospectus and any supplement before you invest in any of our securities.

We may offer and sell the following securities:

debt securities;

preferred stock;

preferred stock represented by depositary shares;

common stock; and

warrants to purchase debt securities, common stock, preferred stock or depositary shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or completeness of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 12, 2001.

Table of Contents

TABLE OF CONTENTS

	Page
ABOUT THIS PROSPECTUS	1
WHERE YOU CAN FIND MORE INFORMATION	1
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	2
FORWARD-LOOKING STATEMENTS	2
AVERY DENNISON CORPORATION	3
RATIO OF EARNINGS TO FIXED CHARGES	3
USE OF PROCEEDS	3
DESCRIPTION OF SECURITIES	3
DESCRIPTION OF DEBT SECURITIES	4
DESCRIPTION OF COMMON STOCK AND PREFERRED STOCK	12
DESCRIPTION OF DEPOSITARY SHARES	15
DESCRIPTION OF WARRANTS	18
PLAN OF DISTRIBUTION	20
LEGAL MATTERS	22
EXPERTS	22

Table of Contents

ABOUT THIS PROSPECTUS

This prospectus is part of a shelf registration statement that we filed with the United States Securities and Exchange Commission, or the SEC. By using a shelf registration statement, we may sell up to \$600,000,000 aggregate offering price of any combination of the securities described in this prospectus from time to time and in one or more offerings. This prospectus only provides you with a general description of the securities that we may offer. Each time we sell securities, we will provide a supplement to this prospectus that contains specific information about the terms of the securities. The supplement may also add, update or change information contained in this prospectus. Before purchasing any securities, you should carefully read both this prospectus and any supplement, together with the additional information described under the heading **Where You Can Find More Information**.

You should rely only on the information contained or incorporated by reference in this prospectus and in any supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and the supplement to this prospectus is accurate as of the date on their respective covers. Our business, financial condition, results of operations and prospects may have changed since those dates.

When we refer to **we**, **our** and **us** in this prospectus, we mean Avery Dennison Corporation, excluding, unless the context otherwise requires or as otherwise expressly stated, our subsidiaries. When we refer to **you** or **yours**, we mean the holders of the applicable series of securities.

WHERE YOU CAN FIND MORE INFORMATION

We file reports, proxy statements and other information with the SEC. Information filed with the SEC by us can be inspected and copied at the Public Reference Room maintained by the SEC and at the Regional Offices of the SEC as follows:

Public Reference Room
450 Fifth Street, N.W. 7
Room 1024
Washington, D.C. 20549

New York Regional Office
World Trade Center
Suite 1300
New York, New York 10048

Chicago Regional Office
Citicorp Center
500 West Madison Street
Suite 1400
Chicago, Illinois 60661-2551

You may also obtain copies of this information by mail from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Room 1024, Washington, D.C. 20549, at prescribed rates. Further information on the operation of the SEC's Public Reference Room in Washington, D.C. can be obtained by calling the SEC at 1-800-SEC-0330.

The SEC also maintains a web site that contains reports, proxy statements and other information about issuers, such as us, who file electronically with the SEC. The address of that site is <http://www.sec.gov>.

Our common stock is listed on the New York Stock Exchange (NYSE: AVY), and reports, proxy statements and other information concerning us can also be inspected at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005. Our web site address is <http://www.averydennison.com>. The information on our web site, however, is not, and should not be deemed to be, a part of this prospectus.

This prospectus is part of a registration statement that we filed with the SEC. The full registration statement may be obtained from the SEC or us, as indicated below. Forms of the indenture and other documents establishing the terms of the offered securities are filed as exhibits to the registration statement. Statements in this prospectus about these documents are summaries. You should refer to the actual documents for a more complete description of the relevant matters.

Table of Contents

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The rules of the SEC allow us to incorporate by reference information into this prospectus, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is deemed to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede that information. The prospectus incorporates by reference the documents set forth below that we have previously filed with the SEC. These documents contain important information about us.

our Annual Report on Form 10-K filed with the SEC on March 29, 2001;

our Quarterly Report on Form 10-Q filed with the SEC on May 14, 2001;

the description of our preferred share purchase rights contained in our registration statement on Form 8-A filed with the SEC on October 24, 1997; and

all documents filed by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act after the date of this prospectus and before the termination of the offering.

You may request a free copy of any of the documents incorporated by reference in this prospectus (other than exhibits, unless they are specifically incorporated by reference in the documents) by writing or telephoning us at the following address:

Secretary

Avery Dennison Corporation
150 North Orange Grove Boulevard
Pasadena, California 91103
(626) 304-2000

FORWARD-LOOKING STATEMENTS

This prospectus, including the documents that we incorporate by reference, contains certain forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Such statements are indicated by words such as anticipate, assume, believe, continue, estimate, expect, intend, may, plan, potential, project, and other expressions, which refer to future events and trends, and identify forward-looking statements that involve risks and uncertainties. We caution that forward-looking statements are not guarantees because there are inherent and obvious difficulties in attempting to predict the outcome of future events. Therefore, actual results may differ materially from those expressed or implied. We have based these forward-looking statements on our current expectations and projections about future events. Our ability to attain management's goals and objectives are materially dependent on numerous factors, including, among other things, factors discussed in our filings with the SEC and the following:

the effect of general economic conditions and growth (or contraction) of the principal economies in which we operate, including the United States, Canada, Europe, Latin America and the Asia-Pacific region;

fluctuations in currencies;

the availability and cost of raw materials and the ability to control or pass on the costs of raw materials and labor;

industry concentration in certain portions of our business, leading to sales of certain types of products being concentrated in a few major customers;

our ability to develop and successfully market new products and to develop, acquire and retain necessary intellectual property rights; and

Table of Contents

other miscellaneous factors such as the effects of interest rate increases, legal and administrative cases and proceedings, changes in customer demand or businesses, loss of significant contracts or customers, potential for customers to purchase substitute products, etc.

The factors identified above are believed to be some, but not all, of the important factors that could cause actual events and results to be materially different from those that may be expressed or implied in any such forward-looking statements. Any forward-looking statements should also be considered in light of the factors detailed in Exhibit 99 of our Annual Report on Form 10-K for the year ended December 30, 2000.

AVERY DENNISON CORPORATION

Our principal business is the production of pressure-sensitive adhesives and materials and the production of consumer and converted products. Some of these materials are converted into labels and other products through embossing, printing, stamping and die-cutting, and some are sold in unconverted form as base materials, tapes and reflective sheeting. We also manufacture and sell a variety of consumer and converted products and other items not involving pressure-sensitive components, such as notebooks, three-ring binders, organizing systems, markers, fasteners, business forms, reflective highway safety products, tickets, tags and imprinting equipment.

We manufacture and sell these products from approximately 200 manufacturing facilities and sales offices located in 42 countries, and employ approximately 18,800 persons worldwide. International operations, principally in Western Europe, constitute a significant portion of our business. In addition, we are currently expanding our operations in Asia Pacific, Latin America and Eastern Europe.

Our principal executive offices are located at 150 North Orange Grove Boulevard, Pasadena, California 91103 and our telephone number is (626) 304-2000.

RATIO OF EARNINGS TO FIXED CHARGES

Our ratios of earnings to fixed charges are as follows for the periods indicated:

	Three Months Ended March 31, 2001	Fiscal Year Ended				
		2000	1999	1998	1997	1996
Ratio of earnings to fixed charges	5.9	6.7	6.3	7.4	7.3	5.9

We have computed the ratio of earnings to fixed charges 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.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of the securities for general corporate purposes, including repaying, redeeming or repurchasing existing debt, and for working capital, capital expenditures and acquisitions. We may invest funds not required immediately for such purposes in short-term investment grade securities.

DESCRIPTION OF SECURITIES

The following is a general description of the terms and provisions of the securities we may offer and sell by this prospectus. These summaries are not meant to be a complete description of each security. This prospectus and any accompanying prospectus supplement will contain the material terms and conditions for each security. The prospectus supplement may add, update or change the terms and conditions of the securities as described in this prospectus. For more information about the securities offered by us, please refer

Table of Contents

to the indenture, dated as of July 3, 2001, between us and Chase Manhattan Bank and Trust Company, National Association. The form of the indenture is filed as an exhibit to the registration statement. The trustee under the indenture is referred to as the indenture trustee. The indenture is subject to and governed by the Trust Indenture Act of 1939, and may be supplemented or amended from time to time following its execution.

DESCRIPTION OF DEBT SECURITIES

The following description discusses the general terms and provisions of the debt securities that we may offer by this prospectus. The debt securities will be issued as senior debt securities, will be unsecured obligations and will rank equally with all of our other unsecured and unsubordinated debt.

The debt securities will be governed by the indenture. The indenture gives us broad authority to set the particular terms of each series of debt securities, including the right to modify certain of the terms contained in the indenture. The particular terms of a series of debt securities and the extent, if any, to which the particular terms of the issue modify the terms of the indenture will be described in the prospectus supplement relating to the debt securities.

The indenture contains the full legal text of the matters described in this section. Because this section is a summary, it does not describe every aspect of the debt securities or the indenture. This summary is subject to and qualified in its entirety by reference to all the provisions of the indenture, including definitions of terms used in the indenture. We also include references in parentheses to certain sections of the indenture. Whenever we refer to particular sections or defined terms of the indenture in this prospectus or in a prospectus supplement, these sections or defined terms are incorporated by reference herein or in the prospectus supplement. This summary also is subject to and qualified by reference to the description of the particular terms of the debt securities in the applicable prospectus supplement.

General

We may issue an unlimited amount of debt securities under the indenture in one or more series. We need not issue all debt securities of one series at the same time and, unless otherwise provided, we may reopen a series, without the consent of the holders of the debt securities of that series, for issuances of additional debt securities of that series.

The debt securities will be unsecured obligations.

Prior to the issuance of each series of debt securities, the terms of the particular securities will be specified in a board resolution of Avery Dennison and in a supplemental indenture (including any pricing supplement) or in one or more officers' certificates of Avery Dennison. We refer you to the applicable prospectus supplement for a description of the following terms of the series of debt securities:

- (a) the title of the debt securities;
- (b) any limit upon the principal amount of the debt securities;
- (c) the person to whom interest is payable if other than the person in whose name the debt securities are registered;
- (d) the date or dates on which principal will be payable or how to determine the dates and the right, if any, to shorten or extend the date on which principal will be payable and the conditions to any such change;
- (e) the rate or rates or method of determination of interest; the date from which interest will accrue; the dates on which interest will be payable, which we refer to as the interest payment dates; and any record dates for the interest payable on the interest payment dates;
- (f) whether we may extend the interest payment periods and, if so, the terms of any extension;
- (g) the place where we will pay principal, premium and interest on the debt securities;

Table of Contents

(h) the period or periods during which, and the price or prices at which, and the terms and conditions at which the debt securities may be redeemed, in whole or in part, at our option;

(i) any obligation, if any, we have to redeem or purchase the debt securities under any sinking fund, purchase fund or analogous provisions or at the option of a holder and the details of that obligation;

(j) the denominations in which the debt securities will be issuable (if other than denominations of \$1,000 and any integral multiple thereof);

(k) any index or formula for determining the amount of principal of, premium and interest on the debt securities, and the manner of determining those amounts;

(l) the currency, currencies or currency units in which we will pay principal, premium and interest on the debt securities and, if other than the currency of the United States of America, the manner of determining the equivalent thereof in the currency of the United States of America;

(m) the currency, currencies or currency units in which the principal, premium and interest on the debt securities will be paid, if, at our election or the election of the holders, such principal, premium and interest is to be paid in currencies or currency units other than those the debt securities are stated to be payable, and the terms and conditions upon which such election is to be made;

(n) any provision relating to deferral of interest payments;

(o) whether the debt securities are to be issued in whole or in part in the form of one or more global debt securities and, if so, the identity of the depositary for the global debt securities;

(p) any rights of the holders to convert the debt securities into other securities or property and the terms and conditions of conversion;

(q) any addition, modification or deletion to any events of default or covenants that apply to the debt securities; and

(r) any other terms of the debt securities. (See Section 301.)

One or more series of the debt securities may be issued as discounted debt securities (bearing no interest or interest at a rate which at the time of issuance is below market rates) to be sold at a substantial discount below their stated principal amount. Federal income tax consequences and other special considerations applicable to any such discounted debt securities will be described in the applicable prospectus supplement.

Indexed debt securities may be issued with the principal amount payable at maturity, or the amount of interest payable on an interest payment date, to be determined by reference to a currency exchange rate, composite currency, commodity price or other financial or non-financial index as set forth in the applicable pricing supplement. Holders of indexed debt securities may receive a principal amount at maturity that is greater than or less than the face amount of such debt securities depending upon the value at maturity of the applicable index. Information as to the methods for determining the principal amount payable at maturity or the amount of interest payable on an interest payment date, as the case may be, any currency or commodity market to which principal or interest is indexed, foreign exchange and other risks and certain additional tax and other considerations with respect to indexed debt securities will be set forth in the applicable pricing supplement.

Payment of Debt Securities Interest

Unless indicated differently in a prospectus supplement, we will pay interest on the debt security on each interest payment date to the person in whose name the debt security is registered as of the close of business on the regular record date relating to the interest payment date.

Table of Contents

However, if we default in paying interest on a debt security, we will pay defaulted interest in either of the two following ways:

(a) We will first propose to the indenture trustee the amount of defaulted interest proposed to be paid and a payment date for the defaulted interest. Next, the indenture trustee will choose a special record date for determining which registered holders are entitled to the payment. The special record date will be between 10 and 15 days before the payment date we propose. Finally, we will pay the defaulted interest on the payment date to the registered holder of the debt security as of the close of business on the special record date.

(b) Alternatively, we can propose to the indenture trustee any other lawful manner of payment that is consistent with the requirements of any securities exchange on which the debt securities are listed for trading. If the indenture trustee believes the proposal is practicable, payment will be made as proposed. (See Section 307.)

Payment of Debt Securities Principal

Unless we indicate differently in a prospectus supplement, we will pay principal of and any premium on the debt securities at stated maturity, upon redemption or otherwise, upon presentation of the debt securities at the office of the indenture trustee, as our paying agent. Any other paying agent initially designated for the debt securities of a particular series will be named in the applicable prospectus supplement.

In our discretion, we may change the place of payment on the debt securities. (See Section 1002.)

Form; Transfers; Exchanges

The debt securities will be issued:

(a) only in fully registered form;

(b) without interest coupons; and

(c) unless otherwise specified in a prospectus supplement, in denominations that are integral multiples of \$1,000.

You may have your debt securities divided into debt securities of smaller denominations (of at least \$1,000) or combined into debt securities of larger denominations, as long as the total principal amount is not changed. This is called an exchange. (See Section 305.)

You may exchange or transfer debt securities at the office of the indenture trustee. The indenture trustee acts as our agent for registering debt securities in the names of holders and transferring debt securities. We may appoint another agent or act as our own agent for this purpose. The entity performing the role of maintaining the list of registered holders is called the security registrar. It will also perform transfers. (See Section 305.)

In our discretion, we may change the place for registration of transfer or exchange of the debt securities and may remove and/or appoint one or more additional security registrars. (See Sections 301, 305 and 1002.)

Except as otherwise provided in a prospectus supplement, there will be no service charge for any transfer or exchange of the debt securities, but you may be required to pay a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange. We may block the transfer or exchange of (a) debt securities during a period of 15 days prior to giving any notice of redemption or (b) any debt security selected for redemption in whole or in part, except the unredeemed portion of any debt security being redeemed in part. (See Section 305.)

Redemption

We will set forth any terms for the redemption of debt securities in a prospectus supplement. Unless we indicate differently in a prospectus supplement, all or any portion of the debt securities may be redeemed at

Table of Contents

our option at any time and from time to time. The debt securities will be redeemable upon notice by mail between 30 and 60 days prior to the redemption date. If less than all of the debt securities of any series or any tranche of a series are to be redeemed, the indenture trustee will select the debt securities to be redeemed. In the absence of any provision for selection, the indenture trustee will choose a method of random selection it deems fair and appropriate. (See Sections 1102, 1103 and 1104.)

Debt securities will cease to bear interest on the redemption date. We will pay the redemption price and any accrued interest once you surrender the debt security for redemption. (See Section 1106.) If only part of a debt security is redeemed, the indenture trustee will deliver to you a new debt security of the same series for the remaining portion without charge. (Section 1107.)

Prior to the date fixed for redemption, we will deposit with the paying agent money sufficient to pay the redemption price and accrued interest on all debt securities to be redeemed on that date. (See Section 1105.)

Events of Default

An event of default occurs with respect to debt securities of any series if:

(a) we do not pay any interest on any debt securities of the applicable series within 30 days of the due date (following any deferral allowed under the terms of the debt securities and elected by us);

(b) we do not pay principal or premium on any debt securities of the applicable series on its due date;

(c) we do not deposit any sinking fund payment when and if due by the terms of the applicable series of debt securities;

(d) we default in the performance or remain in breach of a covenant (excluding covenants not applicable to the affected series) in the indenture or the debt securities for 90 days after we receive a written notice of default stating we are in default or breach and requiring remedy of the default or breach; the notice must be sent by either the indenture trustee or registered holders of at least 25% of the principal amount of debt securities of the affected series;

(e) we file for bankruptcy or other specified events in bankruptcy, insolvency, receivership or reorganization occur; or

(f) any other event of default specified in the prospectus supplement occurs. (See Section 501.)

No event of default with respect to a series of debt securities necessarily constitutes an event of default with respect to the debt securities of any other series issued under the indenture.

Remedies

Acceleration

If an event of default occurs and is continuing with respect to any series of debt securities, then either the indenture trustee or the registered holders of not less than 25% in principal amount of the outstanding debt securities of that series may declare the principal amount of all of the debt securities of that series to be due and payable immediately. (See Section 502.)

Rescission of Acceleration

After the declaration of acceleration has been made and before the indenture trustee has obtained a judgment or decree for payment of the money due on any series of debt securities, the registered holders of not

Table of Contents

less than a majority in aggregate principal amount of the outstanding debt securities of that series may rescind and annul the declaration and its consequences, if:

(a) we pay or deposit with the indenture trustee a sum sufficient to pay:

(1) all overdue interest, other than interest which has become due by declaration of acceleration;

(2) the principal of and any premium which have become due other than by the declaration of acceleration and overdue interest on these amounts;

(3) interest on overdue interest, other than interest which has become due by declaration of acceleration, to the extent lawful;

(4) all amounts due to the indenture trustee under the indenture; and

(b) all events of default with respect to the affected series, other than the nonpayment of the principal and interest which has become due solely by the declaration of acceleration, have been cured or waived as provided in the indenture. (See Section 502.)

For more information as to waiver of defaults, see Waiver of Default and of Compliance below.

Control by Registered Holders; Limitations

If an event of default with respect to the debt securities of any series occurs and is continuing, the registered holders of a majority in principal amount of the outstanding debt securities of that series, voting as a single class, without regard to the holders of outstanding debt securities of any other series that may also be in default will have the right to:

(a) direct the time, method and place of conducting any proceeding for any remedy available to the indenture trustee; or

(b) exercise any trust or power conferred on the indenture trustee with respect to the debt securities of the series.

These rights of registered holders to make direction are subject to the following limitations:

(a) the registered holders' directions will not conflict with any law or the indenture;

(b) the indenture trustee may take any other action it deems proper which is consistent with the registered holders' direction; and

(c) the direction is not unduly prejudicial to the rights of holders of the debt securities of that series who do not join that.

The registered holders' directions may not involve the indenture trustee in personal liability where the indenture trustee believes indemnity is not adequate. (See Sections 512 and 601.)

In addition, the indenture provides that no registered holder of any debt security of any series will have any right to institute any proceeding, judicial or otherwise, with respect to the indenture for the appointment of a receiver or for any other remedy under the indenture unless:

(a) that registered holder has previously given the indenture trustee written notice of a continuing event of default;

(b) the registered holders of not less than 25% in aggregate principal amount of the outstanding debt securities of the affected series have made written request to the indenture trustee to institute proceedings in respect of an event of default and have offered the indenture trustee reasonable security or indemnity satisfactory to it against costs and liabilities incurred in complying with the request;

(c) for 60 days after receipt of the notice, the indenture trustee has failed to institute a proceeding and no direction inconsistent with the request has been given to the indenture trustee during the 60-day

Table of Contents

period by the registered holders of a majority in aggregate principal amount of outstanding debt securities of the affected series.

Furthermore, no registered holder will be entitled to institute any action if and to the extent that the action would disturb or prejudice the rights of other registered holders. (See Section 507.)

However, each registered holder has an absolute and unconditional right to receive payment when due and to bring a suit to enforce that right. (See Section 508.)

If any event of default is continuing with respect to all the series of debt securities, the registered holders of a majority in aggregate principal amount of the outstanding debt securities of all the series, considered as one class, will have the right to make such direction, and not the registered holders of the debt securities of any one of the series.

Notice of Default

The indenture trustee is required to give the registered holders of the debt securities notice of any default under the indenture to the extent required by the Trust Indenture Act, unless the default has been cured or waived. (See Section 602.) The Trust Indenture Act currently permits the indenture trustee to withhold notices of default (except for certain payment defaults) if the indenture trustee in good faith determines the withholding of the notice to be in the interests of the registered holders.

Waiver of Default and of Compliance

The registered holders of a majority in aggregate principal amount of the outstanding debt securities of any series, voting as a single class, without regard to the holders of outstanding debt securities of any other series, may waive, on behalf of the registered holders of all debt securities of such series, any past default under the indenture with respect to such series, except a default in the payment of principal, premium or interest, or with respect to compliance with certain provisions of the indenture that cannot be amended without the consent of the registered holder of each outstanding debt security of the affected series. (See Section 513.)

Compliance with some of the covenants in the indenture or otherwise provided with respect to debt securities may be waived by the registered holders of a majority in aggregate principal amount of the affected debt securities. (See Section 1006.)

Consolidation, Merger and Conveyance of Assets as an Entirety

Subject to the provisions described in the next paragraph, we will preserve our corporate existence. (See Section 1004.)

We may not consolidate with or merge into any other entity or convey, transfer or lease our properties and assets, substantially as an entirety to any entity, and may not permit another entity to consolidate with or merge into us unless, among other things:

(a) the entity formed by the consolidation or into which we are merged, or the entity which acquires us or which leases our property and assets substantially as an entirety, is a corporation, partnership, limited liability company or trust, is an entity organized and existing under the laws of the United States of America or any State of the United States or the District of Columbia, and expressly assumes, by supplemental indenture, the due and punctual payment of the principal, premium and interest on all the outstanding debt securities and the performance of all of our covenants under the indenture, as supplemented;

(b) immediately after giving effect to the transactions, no event of default, and no event which after notice or lapse of time or both would become an event of default, will have occurred and be continuing; and

Table of Contents

(c) we have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that such consolidation, merger, conveyance, transfer or lease, and that the supplemental indenture, if any, comply with the applicable provisions of the indenture, and that all the conditions precedent set forth in the indenture have been complied with. (See Section 801.)

Limited Restrictions

Unless we otherwise state in the prospectus supplement, the indenture does not limit our ability to incur debt and does not give holders of debt securities protection in the event of a sudden and significant decline in our credit quality or a takeover, recapitalization or highly leveraged or similar transaction involving us. Accordingly, we could in the future enter into transactions that could increase the amount of indebtedness outstanding at that time or otherwise affect our capital structure or credit rating.

Covenants

Any covenants with respect to any particular series of debt securities will be set forth in the applicable prospectus supplement.

Modification of Indenture

Without Registered Holder Consent. Without the consent of any registered holders of debt securities, we and the indenture trustee may enter into one or more supplemental indentures for any of the following purposes:

(a) to evidence the succession of another entity to us and the assumption by such person of the covenants in the indenture and the debt securities; or

(b) to add one or more covenants or other provisions for the benefit of the registered holders of all or any series or tranche of debt securities, or to surrender any right or power conferred upon us; or

(c) to add any additional events of default for all or any series of debt securities; or

(d) to add to or change any provision of the indenture to the extent necessary to permit or facilitate the issuance of debt securities in bearer form or the issuance of debt securities in uncertificated form; or

(e) to change or eliminate any provision of the indenture or to add any new provision to the indenture that does not adversely affect the interests of the registered holders; or

(f) to provide security for the debt securities of any series; or

(g) to establish the form or terms of debt securities of any series as permitted by the indenture; or

(h) to evidence and provide for the acceptance of appointment of a separate or successor indenture trustee; or

(i) to cure any ambiguity, defect or inconsistency or to make any other changes that do not adversely affect the interests of the registered holders in any material respect. (See Section 901.)

If the Trust Indenture Act is amended after the date of the indenture so as to require changes to the indenture or so as to permit changes to, or the elimination of, provisions which, at the date of the indenture or at any time thereafter, were required by the Trust Indenture Act to be contained in the indenture, the indenture will be deemed to have been amended so as to conform to the amendment or to effect the changes or elimination, and we and the applicable indenture trustee may, without the consent of any registered holders, enter into one or more supplemental indentures to effect or evidence the amendment.

With Registered Holder Consent. We and the indenture trustee may, with some exceptions, amend or modify the indenture with the consent of the registered holders of at least a majority in aggregate principal amount of the debt securities of each series affected by the amendment or modification (voting as one class).

Table of Contents

However, no amendment or modification may, without the consent of the registered holder of each outstanding debt security affected thereby:

(a) change the stated maturity of the principal or interest on any debt security (other than pursuant to the terms of the debt security), or reduce the principal amount, interest on or premium payable upon redemption, or change the currency in which any debt security or any premium or interest is payable thereon, or impair the right to bring suit to enforce any payment;

(b) reduce the percentages of registered holders whose consent is required for any supplemental indenture or waiver under the indenture; or

(c) modify certain of the provisions in the indenture relating to supplemental indentures and waivers of certain covenants and past defaults.

A supplemental indenture which changes or eliminates any covenant or other provision of the indenture expressly included solely for the benefit of registered holders of debt securities of one or more particular series or tranches, or which modifies the rights of registered holders of debt securities of one or more series with respect to such covenant or other provision, will be deemed not to affect the rights under the indenture of the registered holders of debt securities of any other series or tranche. (See Section 902.)

Defeasance and Covenant Defeasance

The indenture provides, unless the terms of the particular series of debt securities provide otherwise, that we may, upon satisfying several conditions, cause ourselves to be:

(a) discharged from our obligations, with some exceptions, with respect to any series of debt securities, which we refer to as defeasance ; and

(b) released from our obligations under specified covenants with respect to any series of debt securities, which we refer to as covenant defeasance.

Among the conditions we must satisfy in order to effect a defeasance or a covenant defeasance is the irrevocable deposit with the indenture trustee, in trust, of money and/or government obligations which, through the scheduled payment of principal and interest and any mandatory sinking fund or analogous payments applicable on those obligations, would provide sufficient moneys to pay the principal of and any premium and interest on those debt securities on the maturity dates of the payments or upon redemption and any mandatory sinking fund or analogous payments applicable on those obligations. (See Section 1304.)

The indenture permits defeasance with respect to any series of debt securities even if a prior covenant defeasance has occurred with respect to the debt securities of that series. Following a defeasance, payment of the debt securities defeased may not be accelerated because of an event of default. (See Section 1302.) Following a covenant defeasance, payment of the debt securities may not be accelerated by reference to the specified covenants affected by the covenant defeasance. (See Section 1303). However, if an acceleration were to occur, the realizable value at the acceleration date of the money and government obligations in the defeasance trust could be less than the principal and interest then due on the respective debt securities, since the required deposit in the defeasance trust would be based upon scheduled cash flows rather than market value, which would vary depending upon interest rates and other factors.

Under current United States federal income tax law, the defeasance contemplated in the preceding paragraphs would be treated as an exchange of the relevant debt securities in which holders of the debt securities might recognize gain or loss. In addition, the amount, timing and character of amounts that holders would be required after the defeasance to include in income might be different from that which would be includible in the absence of the defeasance. Prospective investors are urged to consult their own tax advisors as to the specific consequences of a defeasance, including the applicability and effect of tax laws other than United States federal income tax laws.

Under current United States federal income tax laws, unless accompanied by other changes in the terms of the debt securities, covenant defeasance generally should not be treated as a taxable exchange.

Table of Contents

Satisfaction and Discharge

The indenture will cease to be of further effect with respect to any series of debt securities, and we will be deemed to have satisfied and discharged all of our obligations under the indenture, except as noted below, when:

(a) all outstanding debt securities of such series have become due or will become due within one year at their stated maturity or on a redemption date; and

(b) we deposit with the trustee, in trust, funds that are sufficient to pay and discharge all remaining indebtedness on the outstanding debt securities of such series.

We will remain obligated to pay all other amounts due under the indenture and to perform certain ministerial tasks to be described in the indenture.

Resignation and Removal of the Indenture Trustee; Deemed Resignation

The indenture trustee may resign at any time by giving written notice to us. The indenture trustee may also be removed by act of the registered holders of a majority in principal amount of the then outstanding debt securities of any series, and in certain circumstances may be removed by us.

No resignation or removal of the indenture trustee and no appointment of a successor indenture trustee will become effective until the acceptance of appointment by a successor indenture trustee in accordance with the requirements of the indenture.

Under some circumstances, we may appoint a successor indenture trustee and, if the successor accepts, the indenture trustee will be deemed to have resigned. (See Sections 610 and 611).

Conversion Rights

The terms and conditions of any debt securities being offered that are convertible into our common stock or other securities of Avery Dennison will be set forth in a prospectus supplement. These terms will include the conversion price, the conversion period, provisions as to whether conversion will be mandatory, or at the option of the holder or us, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event that the debt securities are redeemed.

Governing Law

The indenture and the related debt securities will be governed by and construed in accordance with the laws of the State of New York.

DESCRIPTION OF

COMMON STOCK AND PREFERRED STOCK

The following description of our common stock and preferred stock is only a summary and is qualified in its entirety by reference to our certificate of incorporation and bylaws. Therefore, you should read carefully the more detailed provisions of our Restated Certificate of Incorporation, as amended (the "Restated Certificate"), our Bylaws, as amended, and our Rights Agreement, dated October 23, 1997, between us and First Chicago Trust Company of New York, as rights agent, copies of which are incorporated by reference as exhibits to the registration statement of which this prospectus is a part.

General

This prospectus describes certain general terms of our capital stock. For a more detailed description of these securities, we refer you to the applicable provisions of Delaware law and our Restated Certificate. When we offer to sell a particular series of these securities, we will describe the specific terms of the series in a supplement to this prospectus. Accordingly, for a description of the terms of any series of securities, you must refer to both the prospectus supplement relating to that series and the description of the securities set forth in

Table of Contents

this prospectus. A prospectus supplement may change any of the terms of the securities described in this prospectus.

Pursuant to our Restated Certificate, our authorized capital stock consists of 400,000,000 shares of common stock, par value \$1.00 per share, and 5,000,000 shares of preferred stock, par value \$1.00 per share. At June 30, 2001, we had 110,104,689 shares of common stock outstanding and no shares of preferred stock outstanding.

Common Stock

Subject to any preferential rights that our board of directors may grant in connection with the future issuance of preferred stock, each holder of common stock is entitled to one vote per share on all matters voted upon by the stockholders. Each holder of common stock is entitled to receive ratably any dividends declared on the common stock by the board of directors from funds legally available for distribution. In the event of our liquidation, dissolution or winding up, after we pay all debts and other liabilities and any liquidation preference on the preferred stock, each holder of common stock would be entitled to share ratably in all of our remaining assets. The common stock has no subscription, redemption, conversion or preemptive rights. All shares of common stock are fully paid and nonassessable.

Delaware General Corporation Law Section 203

As a corporation organized under the laws of the State of Delaware, we are subject to Section 203 of the General Corporation Law of the State of Delaware (the "DGCL"), which restricts certain business combinations between us and an "interested stockholder" (in general, a stockholder owning 15% or more of our outstanding voting stock) or that stockholder's affiliates or associates for a period of three years following the date on which the stockholder becomes an "interested stockholder." The restrictions do not apply if:

prior to an interested stockholder becoming such, our board of directors approves either the business combination or the transaction in which the stockholder becomes an interested stockholder;

upon consummation of the transaction in which the stockholder becomes an interested stockholder, the interested stockholder owns at least 85% of our voting stock outstanding at the time the transaction commenced, subject to certain exceptions; or

on or after the date an interested stockholder becomes such, the business combination is both approved by our board of directors and authorized at an annual or special meeting of our stockholders (and not by written consent) by the affirmative vote of at least 66 2/3% of the outstanding voting stock not owned by the interested stockholder.

Preferred Stock

Under the Restated Certificate, our board of directors is authorized generally without stockholder approval to issue shares of preferred stock from time to time, in one or more classes or series. Prior to the issuance of shares of each series, the board of directors is required by the DGCL and the Restated Certificate to adopt resolutions and file a certificate of designation with the Secretary of State of the State of Delaware. The certificate of designation fixes for each class or series the designations, powers, preferences, rights, qualifications, limitations and restrictions, including, but not limited to, the following:

the number of shares constituting each class or series;

voting rights;

rights and terms of redemption (including sinking fund provisions);

dividend rights and rates;

dissolution;

terms concerning the distribution of assets;

Table of Contents

conversion or exchange terms;

redemption prices; and

liquidation preferences.

All shares of preferred stock offered hereby will, when issued, be fully paid and nonassessable and will not have any preemptive or similar rights. Our board of directors could authorize the issuance of shares of preferred stock with terms and conditions which could have the effect of discouraging a takeover or other transaction that might involve a premium price for holders of the shares or which holders might believe to be in their best interests.

We will set forth in a prospectus supplement relating to the class or series of preferred stock being offered the following terms:

The title and stated value of the preferred stock;

The number of shares of the preferred stock offered, the liquidation preference per share and the offering price of the preferred stock;

The dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation applicable to the preferred stock;

Whether dividends are cumulative or non-cumulative and, if cumulative, the date from which dividends on the preferred stock will accumulate;

The procedures for any auction and remarketing, if any, for the preferred stock;

The provisions for a sinking fund, if any, for the preferred stock;

The provision for redemption, if applicable, of the preferred stock;

Any listing of the preferred stock on any securities exchange;

The terms and conditions, if applicable, upon which the preferred stock will be convertible into common stock, including the conversion price (or manner of calculation) and conversion period;

Voting rights, if any, of the preferred stock;

Whether interests in the preferred stock will be represented by depositary shares;

A discussion of any material and/or special United States Federal income tax considerations applicable to the preferred stock;

The relative ranking and preferences of the preferred stock as to dividend rights and rights upon the liquidation, dissolution or winding up of our affairs;

Any limitations on issuance of any class or series of preferred stock ranking senior to or on a parity with the class or series of preferred stock as to dividend rights and rights upon liquidation, dissolution or winding up of our affairs; and

Any other specific terms, preferences, rights, limitations or restrictions of the preferred stock.

Rank

Unless we specify otherwise in the applicable prospectus supplement, the preferred stock will rank, with respect to dividends and upon our liquidation, dissolution or winding up:

senior to all classes or series of our common stock and to all of our equity securities ranking junior to the preferred stock;

on a parity with all of our equity securities the terms of which specifically provide that the equity securities rank on a parity with the preferred stock; and

Table of Contents

junior to all of our equity securities the terms of which specifically provide that the equity securities rank senior to the preferred stock. The term equity securities does not include convertible debt securities.

Preferred Share Purchase Rights

On October 23, 1997, our Board of Directors adopted a Rights Agreement (Rights Plan) and declared a dividend distribution of one preferred share purchase right (a Right) on each outstanding share of our common stock. Stockholders may transfer the Rights with the common stock only until they become exercisable. The Rights have an anti-takeover effect that is intended to discourage coercive or unfair takeover tactics and to encourage any potential acquirer to negotiate a fair price to all of our stockholders. The Rights may cause substantial dilution to any party that may attempt to acquire us on terms not approved by our Board of Directors. However, the Rights are structured in a way so as not to interfere with any negotiated merger or other business combination.

Generally, the Rights become exercisable only if a person or group (subject to certain exceptions stated in the Rights Plan) acquires 20% or more of the then outstanding shares of common stock or announces a tender offer which would result in ownership by a person or group of 20% or more of the then outstanding shares of common stock. Each Right entitles stockholders to buy one one-hundredth of a share of a new series of participating preferred stock at an exercise price of \$150.

If we are acquired in a merger or other business combination transaction, each Right entitles its holder to purchase, at the Right s then current price, a number of the acquiring company s common shares having a then current market value of twice the Right s exercise price.

Following the acquisition by a person or group of beneficial ownership of 20% or more of our common stock (subject to certain exceptions stated in the Rights Plan) and prior to an acquisition of 50% or more of our common stock, our Board of Directors may exchange the Rights (other than Rights owned by the person or group), in whole or in part, at an exchange ratio of one common share per Right (subject to adjustment).

Prior to the acquisition by a person or group of beneficial ownership of 20% or more of our common stock, the Rights are redeemable for \$.01 per Right at the option of the board of directors.

The Rights will expire on October 31, 2007.

Registrar and Transfer Agent

First Chicago, a division of EquiServe, is the registrar and transfer agent for our common stock.

DESCRIPTION OF DEPOSITARY SHARES

General

We may issue depositary shares, each of which will represent a fractional interest of a share of a particular series of preferred stock, as specified in the applicable prospectus supplement. We will deposit with a depositary (the preferred stock depositary) shares of preferred stock of each series represented by depositary shares. We will enter into a deposit agreement (each a deposit agreement) with the preferred stock depositary and holders from time to time of the depositary receipts issued by the preferred stock depositary which evidence the depositary shares (depositary receipts). Subject to the terms of the deposit agreement, each owner of a depositary receipt will be entitled, in proportion to the holder s fractional interest in the preferred stock, to all the rights and preferences of the series of the preferred stock represented by the depositary shares (including dividend, voting, conversion, redemption and liquidation rights).

Immediately after we issue and deliver the preferred stock to a preferred stock depositary, we will cause the preferred stock depositary to issue the depositary receipts on our behalf. You may obtain copies of the applicable form of deposit agreement and depositary receipt from us upon request. The statements made in

Table of Contents

this section relating to the deposit agreement and the depositary receipts are summaries of certain anticipated provisions. These summaries are not complete and we may modify them in a prospectus supplement. For more detail we refer you to the deposit agreement itself, which we will file as an exhibit to the registration statement.

Dividends and Other Distributions

The preferred stock depositary will distribute all cash dividends or other cash distributions received in respect of the preferred stock to the record holders of depositary receipts in proportion to the number of the depositary receipts owned by the holders, subject to the obligations of holders to file proofs, certificates and other information and to pay certain charges and expenses to the preferred stock depositary.

In the event of a distribution other than in cash, the preferred stock depositary will distribute property received by it to the record holders of depositary receipts in proportion to the number of the depositary receipts owned by the holders, unless the preferred stock depositary determines that it is not feasible to make the distribution, in which case the preferred stock depositary may, with our approval, sell the property and distribute the net proceeds from the sale to the holders.

No distribution will be made in respect of any depositary share that represents any preferred stock converted into other securities.

Withdrawal of Stock

Upon surrender of the depositary receipts at the corporate trust office of the preferred stock depositary (unless we have previously called for redemption or converted into other securities the related depositary shares), the holders will be entitled to delivery at that office of the number of whole or fractional shares of the preferred stock and any money or other property represented by the depositary shares. Holders of depositary receipts will be entitled to receive shares of the related preferred stock as specified in the applicable prospectus supplement, but holders of the shares of preferred stock will not thereafter be entitled to receive depositary shares.

Redemption of Depositary Shares

Whenever we redeem shares of preferred stock held by the preferred stock depositary, the preferred stock depositary will concurrently redeem the number of depositary shares representing shares of the preferred stock so redeemed, provided we have paid the applicable redemption price for the preferred stock to be redeemed plus an amount equal to any accrued and unpaid dividends to the date fixed for redemption. The redemption price per depositary share will be equal to the corresponding proportion of the redemption price and any other amounts per share payable with respect to the preferred stock. If fewer than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional depositary shares) or by any other equitable method determined by us.

From and after the date fixed for redemption:

all dividends in respect of the shares of preferred stock called for redemption will cease to accrue;

the depositary shares called for redemption will no longer be deemed to be outstanding; and

all rights of the holders of the depositary receipts evidencing the depositary shares called for redemption will cease, except the right to receive any moneys payable upon the redemption and any money or other property to which the holders of the depositary receipts were entitled upon redemption and surrender to the preferred stock depositary.

Voting of the Preferred Stock

Upon receipt of notice of any meeting at which the holders of the preferred stock are entitled to vote, the preferred stock depositary will mail the information contained in the notice of meeting to the record holders of the depositary receipts. Each record holder of these depositary receipts on the record date (which will be the same date as the record date for the preferred stock) will be entitled to instruct the preferred stock depositary

Table of Contents

as to the exercise of the voting rights pertaining to the amount of preferred stock represented by the holder's depositary shares. The preferred stock depositary will vote the amount of preferred stock represented by the depositary shares in accordance with the instructions, and we will agree to take all reasonable action necessary to enable the preferred stock depositary to do so. The preferred stock depositary will abstain from voting the amount of preferred stock represented by the depositary shares for which it does not receive specific instructions from the holders of depositary receipts evidencing the depositary shares. The preferred stock depositary will not be responsible for any failure to carry out any instruction to vote, or for the manner or effect of any vote made, as long as the action or non-action is in good faith and does not result from the preferred stock depositary's negligence or willful misconduct.

Liquidation Preference

If we voluntarily or involuntarily liquidate, dissolve or wind up, the holders of each depositary receipt will be entitled to the fraction of the liquidation preference accorded each share of preferred stock represented by the depositary shares, as set forth in the applicable prospectus supplement.

Conversion of Preferred Stock

The depositary shares, as such, are not convertible into common stock or any of our other securities or property. Nevertheless, if we so specify in the applicable prospectus supplement relating to an offering of depositary shares, holders may surrender depositary receipts to the preferred stock depositary with written instructions to the preferred stock depositary to instruct us to convert the preferred stock represented by the depositary shares into whole shares of common stock, other shares of our preferred stock or other shares of stock. We have agreed that upon receipt of the instructions and any amounts payable, we will convert the depositary shares using the same procedures as those provided for converting preferred stock. If the depositary shares evidenced by a depositary receipt are to be converted in part only, the preferred stock depositary will issue a new depositary receipt(s) for any depositary shares not converted. No fractional shares of common stock will be issued upon conversion, and if the conversion would result in a fractional share being issued, we will pay an amount in cash equal to the value of the fractional interest based upon the closing price of the common stock on the last business day prior to the conversion.

Amendment and Termination of the Deposit Agreement

We may amend the form of depositary receipt and any provision of the deposit agreement at any time by agreement between us and the preferred stock depositary. However, any amendment that materially and adversely alters the rights of the holders of depositary receipts or that would be materially and adversely inconsistent with the rights granted to the holders of the related preferred stock will not be effective unless the holders of at least 66 2/3% of the depositary shares evidenced by the depositary receipts then outstanding approve the amendment. No amendment will impair the right, subject to the exceptions set forth in the depositary agreement, of any holder of depositary receipts to surrender any depositary receipt with instructions to deliver to the holder the related preferred stock and all money and other property, if any, represented by the depositary receipt, except in order to comply with law. Every holder of an outstanding depositary receipt at the time any such amendment becomes effective will be deemed, by continuing to hold the receipt, to consent and agree to the amendment and to be bound by the deposit agreement as amended.

We may terminate the deposit agreement upon not less than 30 days' prior written notice to the preferred stock depositary if a majority of each series of preferred stock affected by the termination consents to the termination. Upon termination, the preferred stock depositary will deliver or make available to each holder of depositary receipts, upon surrender of the depositary receipts held by the holder, the number of whole or fractional shares of preferred stock represented by the depositary shares evidenced by the depositary receipts together with any other property held by the preferred stock depositary with respect to the depositary receipt.

Table of Contents

In addition, the deposit agreement will automatically terminate if:

all outstanding depositary shares have been redeemed;

there has been a final distribution of the related preferred stock in connection with our liquidation, dissolution or winding up and the distribution has been distributed to the holders of depositary receipts evidencing the depositary shares representing the preferred stock; or

each share of the related preferred stock has been converted into our securities which are not represented by depositary shares.

Charges of Preferred Stock Depositary

We will pay all transfer and other taxes and governmental charges arising solely from the existence of the deposit agreement. In addition, we will pay the fees and expenses of the preferred stock depositary in connection with the performance of its duties under the deposit agreement. However, holders of depositary receipts will pay the fees and expenses of the preferred stock depositary for any duties requested by the holders to be performed which are outside of those expressly provided for in the deposit agreement.

Resignation and Removal of Depositary

The preferred stock depositary may resign at any time by delivering to us notice of its election to do so, and we may at any time remove the preferred stock depositary. Any such resignation or removal will take effect upon our appointment of a successor preferred stock depositary. We must appoint a successor preferred stock depositary within 60 days after delivery of the notice of resignation or removal, and any preferred stock depositary must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least \$50,000,000.

Miscellaneous

The preferred stock depositary will forward to holders of depositary receipts any reports and communications the preferred stock depositary receives from us relating to the preferred stock.

We will not be liable, nor will the preferred stock depositary be liable, if we are prevented from or delayed in, by law or any circumstances beyond our control, performing our obligations under the deposit agreement. Our obligations and the obligations of the preferred stock depositary under the deposit agreement will be limited to performing our duties in good faith and without negligence (in the case of any action or inaction in the voting of preferred stock represented by the depositary shares), gross negligence or willful misconduct. We will not be obligated, nor will the preferred stock depositary be obligated, to prosecute or defend any legal proceeding in respect of any depositary receipts, depositary shares or shares of preferred stock represented thereby unless satisfactory indemnity is furnished to us. We may rely, and the preferred stock depositary may rely, on written advice of counsel or accountants, or information provided by persons presenting shares of preferred stock represented thereby for deposit, holders of depositary receipts or other persons we believe in good faith to be competent to give such information, and on documents we believe in good faith to be genuine and signed by a proper party.

In the event the preferred stock depositary receives conflicting claims, requests or instructions from holders of depositary receipts, on the one hand, and us, on the other hand, the preferred stock depositary will be entitled to act on such claims, requests or instructions received from us.

DESCRIPTION OF WARRANTS

We may issue warrants to purchase debt securities (debt warrants), preferred stock (preferred stock warrants), depositary shares (depositary shares warrants) or common stock (common stock warrants, collectively with the debt warrants, the preferred stock warrants and the depositary shares warrants (warrants)). We may issue warrants independently or together with any other securities we offer pursuant to a prospectus supplement and the warrants may be attached to or separate from the securities. We will issue

Table of Contents

each series of warrants under a separate warrant agreement that we will enter into with a bank or trust company, as warrant agent. We will set forth additional terms of the warrants and the applicable warrant agreements in the applicable prospectus supplement.

Debt Warrants

We will describe in the applicable prospectus supplement the terms of the debt warrants being offered, the warrant agreement relating to the debt warrants and the debt warrant certificates representing the debt warrants, including the following:

the title of the debt warrants;

the aggregate number of the debt warrants;

the price or prices at which the debt warrants will be issued;

the designation, aggregate principal amount and terms of the debt securities purchasable upon exercise of the debt warrants, and the procedures and conditions relating to the exercise of the debt warrants;

the designation and terms of any related debt securities with which the debt warrants are issued, and the number of the debt warrants issued with each security;

the date, if any, on and after which the debt warrants and the related debt securities will be separately transferable;

the principal amount of debt securities purchasable upon exercise of each debt warrant, and the price at which the principal amount of the debt securities may be purchased upon exercise;

the date on which the right to exercise the debt warrants will commence, and the date on which the right will expire;

the maximum or minimum number of the debt warrants which may be exercised at any time;

a discussion of the material United States Federal income tax considerations applicable to the exercise of the debt warrants; and

any other terms of the debt warrants and terms, procedures and limitations relating to the exercise of the debt warrants.

Holders may exchange debt warrant certificates for new debt warrant certificates of different denominations, and may exercise debt warrants at the corporate trust office of the warrant agent or any other office indicated in the applicable prospectus supplement. Prior to the exercise of their debt warrants, holders of debt warrants will not have any of the rights of holders of the securities purchasable upon the exercise and will not be entitled to payments principal, premium or interest on the securities purchasable upon the exercise.

Other Warrants

We will describe in the applicable prospectus supplement the terms of the preferred stock warrants, depositary shares warrants and common stock warrants being offered, including the following:

the title of the warrants;

the securities for which the warrants are exercisable;

the price or prices at which the warrants will be issued;

the number of the warrants issued with each share of preferred stock, common stock or depositary share;

any provisions for adjustment of the number or amount of shares of preferred stock, common stock or depositary shares receivable upon exercise of the warrants or the exercise price of the warrants;

Table of Contents

if applicable, the date on and after which the warrants and the related preferred stock, common stock or depositary shares will be separately transferable;

if applicable, a discussion of the material United States Federal income tax considerations applicable to the exercise of the warrants;

any other terms of the warrants, including terms, procedures and limitations relating to the exchange and exercise of the warrants;

the date on which the right to exercise the warrants will commence, and the date on which the right will expire; and

the maximum or minimum number of the warrants which may be exercised at any time.

Exercise of Warrants

Each warrant will entitle the holder of the warrant to purchase for cash at the exercise price set forth in the applicable prospectus supplement the principal amount of debt securities or shares of preferred stock, common stock or depositary shares being offered. Holders may exercise warrants at any time up to the close of business on the expiration date set forth in the applicable prospectus supplement. After the close of business on the expiration date, unexercised warrants are void.

Holders may exercise warrants as set forth in the prospectus supplement relating to the warrants being offered. Upon receipt of payment and the warrant certificate properly completed and duly executed at the corporate trust office of the warrant agent or any other office indicated in the prospectus supplement, we will, as soon as practicable, forward the debt securities, depositary shares or shares of preferred stock or common stock purchasable upon the exercise. If less than all of the warrants represented by the warrant certificate are exercised, we will issue a new warrant certificate for the remaining warrants.

PLAN OF DISTRIBUTION

We may sell the securities described in this prospectus from time to time in one or more transactions

to purchasers directly;

to underwriters for public offering and sale by them;

through agents;

through dealers; or

through a combination of any of the foregoing methods of sale.

We may distribute the securities from time to time in one or more transactions at:

a fixed price or prices, which may be changed;

market prices prevailing at the time of sale;

prices related to such prevailing market prices; or

negotiated prices.

Direct Sales

We may sell the securities directly to institutional investors or others who may be deemed to be underwriters within the meaning of the Securities Act of 1933, as amended, with respect to any resale of the securities. A prospectus supplement will describe the terms of any sale of securities we are offering hereunder.

Table of Contents

To Underwriters

The applicable prospectus supplement will name any underwriter involved in a sale of securities. Underwriters may offer and sell securities at a fixed price or prices, which may be changed, or from time to time at market prices or at negotiated prices. Underwriters may be deemed to have received compensation from us from sales of securities in the form of underwriting discounts or commissions and may also receive commissions from purchasers of securities for whom they may act as agent. Underwriters may be involved in any at the market offering of equity securities by or on our behalf.

Underwriters may sell securities to or through dealers, and such dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters and/or commissions (which may be changed from time to time) from the purchasers for whom they may act as agent.

Unless otherwise provided in a prospectus supplement, the obligations of any underwriters to purchase securities will be subject to certain conditions precedent, and the underwriters will be obligated to purchase all the securities if any are purchased.

Through Agents and Dealers

We will name any agent involved in a sale of securities, as well as any commissions payable by us to such agent, in a prospectus supplement. Unless we indicate differently in the prospectus supplement, any such agent will be acting on a reasonable efforts basis for the period of its appointment.

If we utilize a dealer in the sale of the securities being offered pursuant to this prospectus, we will sell the securities to the dealer, as principal. The dealer may then resell the securities to the public at varying prices to be determined by the dealer at the time of resale.

Delayed Delivery Contracts

If we so specify in the applicable prospectus supplement, we will authorize underwriters, dealers and agents to solicit offers by certain institutions to purchase the securities pursuant to contracts providing for payment and delivery on future dates. Such contracts will be subject to only those conditions set forth in the applicable prospectus supplement.

The underwriters, dealers and agents will not be responsible for the validity or performance of the contracts. We will set forth in the prospectus supplement relating to the contracts the price to be paid for the securities, the commissions payable for solicitation of the contracts and the date in the future for delivery of the securities.

General Information

Underwriters, dealers and agents participating in a sale of the securities may be deemed to be underwriters as defined in the Securities Act, and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions, under the Securities Act. We may have agreements with underwriters, dealers and agents to indemnify them against certain civil liabilities, including liabilities under the Securities Act, and to reimburse them for certain expenses.

Underwriters or agents and their associates may be customers of, engage in transactions with or perform services for us or our affiliates in the ordinary course of business.

Unless we indicate differently in a prospectus supplement, we will not list the securities on any securities exchange. The securities will be a new issue of securities with no established trading market. Any underwriters that purchase securities for public offering and sale may make a market in such securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. We make no assurance as to the liquidity of or the trading markets for any securities.

Table of Contents

LEGAL MATTERS

Latham & Watkins, Los Angeles, California, will pass upon the validity of the securities offered hereby for us.

EXPERTS

The financial statements incorporated in this Prospectus by reference to the Annual Report on Form 10-K for the year ended December 30, 2000, have been so incorporated in reliance on the reports of PricewaterhouseCoopers LLP, independent accountants, on the authority of said firm as experts in giving said reports.

Table of Contents

No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

TABLE OF CONTENTS

Prospectus Supplement

	Page
Forward-Looking Statements	i
Summary Information	S-1
Risk Factors	S-4
Use Of Proceeds	S-6
Summary Pro Forma Capitalization	S-6
Ratio Of Earnings To Fixed Charges	S-7
Description Of The Notes	S-8
Underwriting	S-16
Legal Matters	S-17
Experts	S-17
Prospectus	
About this Prospectus	1
Where You Can Find More Information	1
Incorporation of Certain Documents by Reference	2
Forward-Looking Statements	2
Avery Dennison Corporation	3
Ratio of Earnings to Fixed Charges	3
Use of Proceeds	3
Description of Securities	3
Description of Debt Securities	4
Description of Common Stock and Preferred Stock	12
Description of Depositary Shares	15
Description of Warrants	18
Plan of Distribution	20
Legal Matters	22
Experts	22

\$400,000,000

Avery Dennison Corporation

% Notes due 2013

% Notes due 2033

Goldman, Sachs & Co.
Salomon Smith Barney
Banc of America Securities LLC
JPMorgan
Wachovia Securities
