

ISTRIBUTION • SECURITY SOLUTIONS • INVENTORY
SYSTEMS • CREATIVE SERVICES • PRODUCT BRANDING •
SECURITY SOLUTIONS • INVENTORY TRACKING • RETAIL
SERVICES • PRICING SYSTEMS • LABELING SYSTEMS •
INVENTORY TRACKING • RETAIL CONTROL SYSTEMS •
PRODUCT BRANDING • LABELING SYSTEMS • GLOBAL DATA
TRACKING • RETAIL CONTROL SYSTEMS • PRICING
SYSTEMS • LABELING SYSTEMS • GLOBAL DATA DISTRIBUTION
RETAIL CONTROL SYSTEMS • PRICING SYSTEMS •
INVENTORY TRACKING • GLOBAL DATA DISTRIBUTION • SECURITY
CONTROL SYSTEMS • PRICING SYSTEMS • CREATIVE SERVICES
GLOBAL DATA DISTRIBUTION • SECURITY SOLUTIONS •
PRICING SYSTEMS • CREATIVE SERVICES • PRODUCT
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CONTROL SYSTEMS •

PAXAR 2002 ANNUAL REPORT

ALL THE THINGS WE DO LABELING SYSTEMS • GLO
RY TRACKING • RETAIL CONTROL SYSTEMS • PRICING
SYSTEMS • LABELING SYSTEMS • GLOBAL DATA DISTRIBUTION
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CONTROL SYSTEMS • PRICING SYSTEMS • CREATIVE SERVICES
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PRICING SYSTEMS • CREATIVE SERVICES • PRODUCT

PAXAR CORPORATION IS A GLOBAL LEADER IN PROVIDING INNOVATIVE MERCHANDISING SYSTEMS TO RETAILERS AND APPAREL MANUFACTURERS.

From Concept to Checkout

PAXAR

We Make Your Sales Work(s)[™]

ALL THE THINGS WE DO

Look around, anywhere, and you will find us there. Chances are, on any given day, you are wearing a garment that has a Paxar designed label, or that was marked with a Paxar ticket or tag. And, chances are the garment was protected with one of our security solutions or price marked in the retail store with our labelers. Or, it was rushed from the point of manufacture to the point of purchase via Paxar tracking and data management technology. In fact, chances are that a day does not go by when you aren't touched by Paxar.

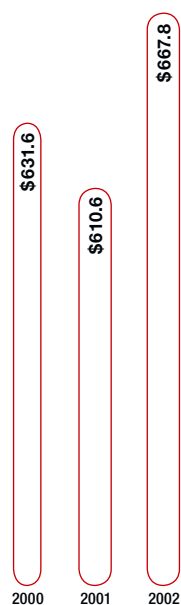
Financial Highlights 1
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On pages 9 and 19, we have featured photos sent in by Paxar people from all over the world, to illustrate the breadth of our employee base and our global operations. We want to thank everyone who responded to our request.

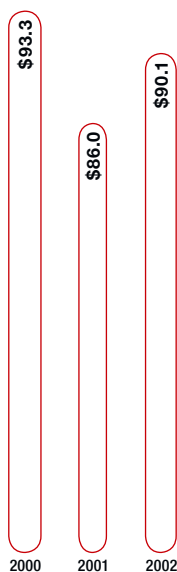
Financial Highlights

<i>(in millions, except per share data)</i>	2002	2001	% Change
SALES	\$ 667.8	\$ 610.6	9%
EBITDA ^(a)	\$ 90.1	\$ 86.0	5%
OPERATING INCOME ^(b)	\$ 60.5	\$ 59.2	2%
NET INCOME			
Actual	\$ 40.3	\$ 18.8	114%
As adjusted ^(c)	\$ 40.3	\$ 37.5	7%
DILUTED EARNINGS PER SHARE			
Actual	\$ 1.00	\$ 0.44	127%
As adjusted ^(c)	\$ 1.00	\$ 0.88	14%
TOTAL ASSETS	\$ 639.6	\$ 583.8	10%
TOTAL DEBT	\$ 166.7	\$ 166.4	0%
SHAREHOLDERS' EQUITY	\$ 337.6	\$ 286.1	18%

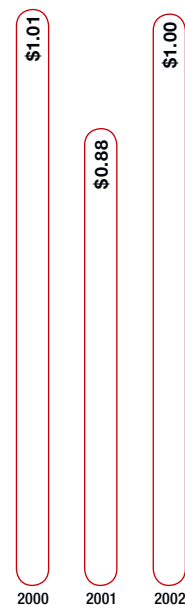
SALES ^(c)



EBITDA ^{(a)(c)}



**AS ADJUSTED
DILUTED EARNINGS
PER SHARE** ^{(a)(b)(c)}

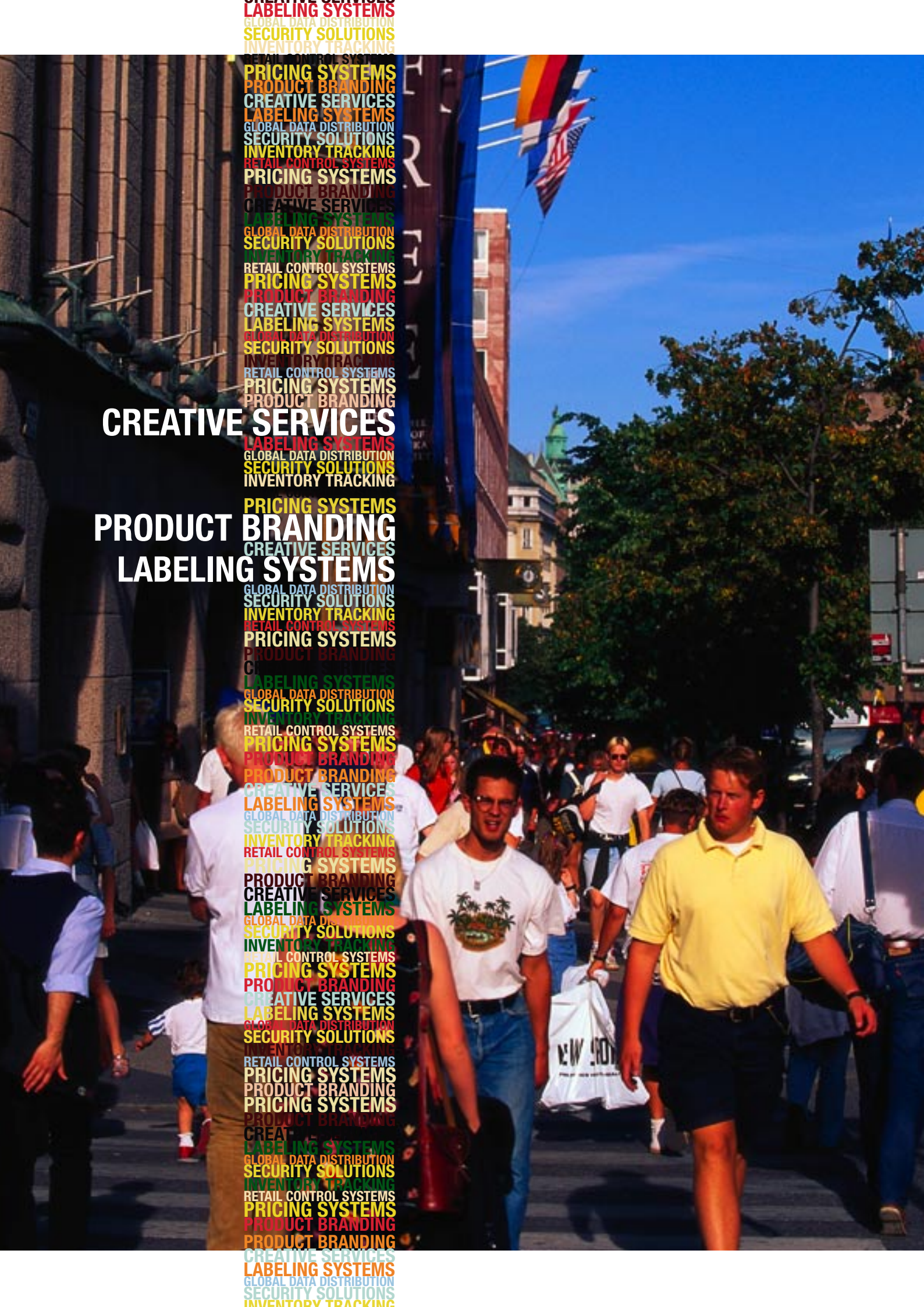


^(a) Excludes non-recurring charges in 2001 and 2000, post-employment benefit costs in 2001 and recording of Bornemann & Bick inventories at fair value in 2000.

^(b) Excludes items cited in (a) above and amortization of goodwill in 2001 and 2000.

^(c) Excludes the operations of International Imaging Materials, Inc. in 2000.

^(d) Excludes gain on sale of International Imaging Materials, Inc. in 2000.



LABELING SYSTEMS
GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
INVENTORY TRACKING

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SECURITY SOLUTIONS
INVENTORY TRACKING



**Paul J. Griswold,
President and
Chief Executive Officer (left),
and Arthur Hershaft,
Chairman of the Board**

Dear Shareholders

We are pleased to report that 2002 was a year of solid growth and strong performance against our corporate priorities, despite difficult economic conditions in many of our markets throughout the world.

In the past year, we realigned our resources to fulfill a customer-focused mission: to be the leading provider of identification and branding solutions across the entire supply chain of apparel manufacturing, distribution and retailing — or, as we like to say, “From Concept to Checkout.”

Indeed, “From Concept to Checkout — We Make Your Sales Work(s)” is the slogan of our corporate marketing campaign, launched at the beginning of 2002. It met with excellent customer response throughout the year and continues to generate excitement in our industry.

It Starts With Our Values. At the heart of our Company is a clear set of values and principles. We have evolved from being product oriented to being focused on customer needs, without losing our enthusiasm for product solutions. Our goal is to simplify our customers’ lives, and to be the easiest company to do business with. As we

strive to deliver measurable benefits to our customers in everything we do, we are building shareholder value.

As we continue to expand globally, we are committed to be the world’s “local supplier”; that is, to service our customers locally, anywhere in the world they may be. This is particularly important as the globalization of the retail and apparel industry intensifies and as manufacturing moves rapidly around the world.

Our Customer Relationship Management, or CRM, approach to business plays a central role in implementing our strategy. By presenting “one face to the customer” — and shifting that customer interaction towards the decision-making level in the purchasing and planning process — we are better able to offer our customers the full breadth of Paxar’s products and services, and to explain how they can beneficially impact upon the success of our customers’ brands and operations. Our goal is to gain more “wallet share” from our customers.

This past year, we have made significant progress in these areas. Although the transformation is not complete, we are greatly encouraged by the way Paxar professionals around the world have so readily adopted our expanded vision and incorporated our new values into our culture.

It’s About Building Shareholder Value. For the year, Paxar’s revenues increased by approximately 9 percent, to \$668 million, despite the worldwide economic conditions. Earnings rose at an even more robust rate, up 14 percent to \$1.00 per share.

As importantly, we maintained strong operating cash flow and a sound balance sheet. We continued to repurchase our shares, which we still believe represent good value. For the year, we bought 684,000 shares for a total cost of \$10 million. Since the program began in 1998, we have repurchased 12.6 million shares for a total cost of \$129 million.

Continuing To Focus On Results. Many factors contributed to our solid performance in 2002. We have the most diversified portfolio of products and services in the industry. We have strengthened our relationship with our customers — key retailers and apparel manufacturers around the world. As a result, we grew despite sluggishness in various parts of the world and in certain industry sectors.

During the year, we gained many new programs from our customers and deepened existing relationships. Our CRM accounts increased their revenues by 13 percent in 2002, as we earned a greater share of our customers' business. As we move forward, we plan to roll out this model to an increasingly larger segment of our customers around the world.

Growth Is Key. Our ability to anticipate the rapid migration of global apparel manufacturing was a key factor in our solid performance.

Last fall, we opened new operations in Romania, the second-largest garment manufacturing center in Europe, after Turkey. Also in 2002 and early 2003, we opened operations in Dubai, Morocco, Bangladesh, Vietnam and Indonesia, which have grown into increasingly important apparel manufacturing hubs.

In Turkey, we had another outstanding year, with sales up by more than 50 percent. To accommodate our growth, we opened a brand-new 50,000 square-foot facility, as the first

as intimate apparel and T-shirts. This acquisition enables customers to print branding and essential variable information directly on the garment using heat transfer technology. We have installed this transfer-printing capability in our North Carolina plant in early 2003, and look forward to offering a full line of identification products and solutions to our customers.

A Passion For Innovation. Our focus on constant innovation, coupled with an ongoing investment in new technology, has kept Paxar a global leader.

In the area of brand protection, for example, we continued to expand our offerings in this increasingly high-stakes field. During 2002, we commercialized a process whereby polyester yarn containing tracer materials is embedded into a label. Through the use of a handheld verification device, a garment's authenticity is confirmed. This technique has been adopted by several manufacturers to combat counterfeiters and we expect it to be an important product for 2003.

“Our CRM approach to business plays a central role in implementing our strategy... presenting ‘one face to the customer.’”

phase of a broader expansion in this key region.

In 2002, we again experienced strong growth in our Asia Pacific region, with sales up 26 percent, as apparel and footwear manufacturing continues to expand in this part of the globe. Our new operations in Panyu, China, significantly increased our capacity, with additional capability to come on stream in 2003.

We continued to implement a disciplined acquisitions strategy. We made important new acquisitions and focused on integrating those made late in 2001, which were smoothly melded into our organization.

In Mexico, we purchased *Disenõs de Colección*, a manufacturer of labels and tags that will greatly extend our presence in the local market and with manufacturers exporting into our U.S. markets.

We acquired NTP Gandrubbakken AS, a manufacturer of heat transfer labels in Norway. This extended our technology base to make us an important player in the rapidly expanding field of “tagless” garments, providing an alternative to sewn-in labels in certain garments such

Similarly, in 2002, one of our new anti-theft labels advanced from the trial stage and was adopted by specialty retailers including Ann Taylor and J. Crew. This product contains a compact, unobtrusive sensor within the label that sets off an alarm if not deactivated at checkout.

Printing and scanning equipment is another area of Paxar's innovative success. We focused on providing wireless connectivity to enhance user mobility. We updated our patented Pathfinder® Ultra® Gold Scanner/Printer and introduced a lightweight, multifunction handheld PC thermal printer and laser scanner that increases efficiency and productivity at the loading dock, in the stockroom and on the sales floor.

Our unique Probranding consulting services, which combine the science of process improvement with brand management marketing expertise, achieved many successes during the year. We assisted several major retailers, including Kohl's, Meijer, Federated, Pep Boys and Saks, to redesign their operations, enabling them to simplify their in-store activities.

Operational Excellence Is A Priority. In 2002, we improved our productivity and profitability, through a continued emphasis on process efficiency and control.

During the past year, we leveraged best practices in our U.S. facilities and rolled out our Practical Process Improvement (PPI) methodology to our North American plants. We outlined a “roadmap to excellence” to drive improvements across a wide range of activities, and instituted a system of metrics for benchmarking our processes to ensure measurable improvement.

The result has been further progress in service, quality, cost and safety. It has also led to a reshaping of our corporate culture — one in which people across the Company actively communicate, sharing information with each other. This has made Paxar a more exciting work environment, and one more focused on company-wide teamwork.

The Future Is Today. We have many ambitious goals for Paxar. Above all, we are committed to building shareholder value. We will continue to grow our top line by strengthening our customer relationships, opening new markets and making disciplined acquisitions.

Our marketplace continues to change, and we are adapting. Although we have already established relationships with many of the global brands, we have discovered that major contractors — throughout the emerging world — are becoming key customers in their own right. There are hundreds of such contractors, and they represent an important new customer set. Going forward, with our 400 sales professionals around the world, we are uniquely positioned to take advantage of this opportunity.

Exemplary Corporate Governance. During 2002, Paxar’s Board of Directors continued to work diligently for all shareholders and performed to the highest professional standards. Among its activities, the Board adopted procedures to fulfill the requirements of the Sarbanes-Oxley Act of 2002, under which both the Chief Executive and Chief Financial Officer must attest to the accuracy of the Company’s financial reports and the effectiveness of its internal control environment. We revised and restated the Audit Committee’s charter, providing additional structure to assure the integrity of the Company’s financial reporting. The Board also adopted new charters for its other standing committees, the Executive Development and Compensation Committee and the Nominating and Corporate Governance Committee, which reinforced the Board’s ability to act with the

highest degree of independence.

We would like to welcome Jim Painter, Chairman of the Board of The 8th Summit LLC, who joined our Board in January 2003. Jim brings to Paxar a keen understanding of the elements of success within the retail industry.

In summary, there is no shortage of opportunities for Paxar. We have built a leadership position in our industry and we have both the financial and human resources to maintain and enhance our position. We would like to thank our many professionals worldwide whose collective efforts have allowed Paxar to accomplish so much, and who have enabled us to excel in “All the Things We Do.”

Sincerely,



Arthur Hershaft
Chairman of the Board

Paul J. Griswold
President and
Chief Executive Officer

March 2003

All the things we do ● Throughout the world and across the Company, Paxar owes its success to its people—to their hard work, imagination, and commitment to our customers. Our people take great pride in their many accomplishments and, together, they tell the Paxar story. Let us introduce some of them to you.

BUILDING A GLOBAL FOOTPRINT



● **Glaucous Chan**
Director Operations
China

“At Paxar China, we’re growing at a vigorous pace. To respond to the escalating demand — and major opportunities still on the horizon — we’re expanding here in order to provide our customers with the full extent of Paxar products and capabilities.

“This year, we relocated weaving looms from Paxar’s U.S. operations, making us self-sufficient in woven edge tape, the basic material for printed labels. This will save us precious lead time in the manufacturing process. In Hong Kong, we merged our operations serving European customers — both operations

were acquired a few years ago in separate transactions — into one Paxar Far East-Europe Division, to better serve European customers on a global basis. And most of all, we completed the first stage of our new expansion in Panyu, China, in the heart of the Pearl River manufacturing district, one of the world’s busiest garment centers.

“We see no shortage of opportunity! When WTO countries eliminate their import quotas in 2005, apparel manufacturing will surge, especially in larger countries in the region. And we’ll be ready for it. We also expect a tremendous increase in the number of manufacturers to do business with here; although today we serve a handful of global retail and apparel giants, when quotas fall there will be hundreds of manufacturers to service as well.

“As the Chinese people grow wealthier, they will consume more high quality garments, both from the major brand manufacturers and from new high quality domestic companies that will surely flourish, just as we saw happen in electronics and appliances.

“That gives Paxar China an important competitive edge — we already understand the Chinese culture and their way of doing business. That’s because we’re Chinese ourselves here, from top management on down.”

COORDINATING OUR CUSTOMERS' NEEDS



 **Phil Blake**
Sandra Stock
Sales Managers
United Kingdom

“It may sound a bit strange, but together the two of us actually do present ‘one face to the customer.’ We’ve both been working so closely with Marks & Spencer for so long — between us we’ve a total of 60 years of Marks & Spencer experience — that we operate as a single, well-synchronized, multifunctional team.

“It’s our job to make sure that whenever Marks & Spencer has a new identification project, it will be properly developed and then executed by Paxar team members all over the world, with the same consistency and quality whether work is being done in

the U.K. or Italy or Sri Lanka. We engage the right talent, see that specifications are delivered and understood, and, importantly, make certain that work is sent to the optimal location for the most efficient production and delivery.

“It’s quite a challenge. We’ve got to work in a multicultural environment, across M&S as well as Paxar. It demands understanding the capabilities — and sensibilities — of each link in the chain. But it’s also exciting and satisfying to orchestrate such global teamwork!

“And because we’re so close to our customer, we consistently find new ways to offer Paxar products and services. Just this year, Marks & Spencer launched Per Una, a major new line of fashion-conscious women’s clothing. Although they’d contracted with another supplier for care labels and woven labels, we were quick to step in when problems developed. In record time, we designed an entirely new production process, linking the U.K. with Paxar sites in Italy and Turkey and with their contractor in the Czech Republic. With our proprietary Web-based data management system, we sent new orders and information daily to the appropriate locations, and sped up their operations. We cut their delivery-to-market time for care labels by several precious days.

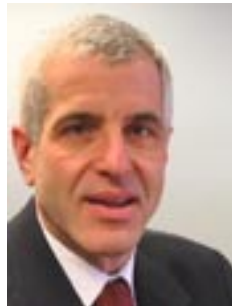
“Now we’re pursuing other areas within M&S. We’re reaching beyond clothing and textiles to identification solutions for their food and housewares divisions. There are lots of new opportunities. We’re still only scratching the surface.”

- 1 Resi Haberstock
GERMANY
- 2 Jorge Vallejo
UNITED STATES
- 3 Leticia Garcia
MEXICO
- 4 Julie Ruscoe
UNITED KINGDOM
- 5 Tatiana Laegreid
NORWAY
- 6 Francesco Bettoni
ITALY
- 7 Shonna Brackett
UNITED STATES
- 8 Isaias Herrera
DOMINICAN REPUBLIC
- 9 Eliza Tsang
HONG KONG
- 10 Meric Tarim
TURKEY
- 11 Kevin Lim
SINGAPORE
- 12 Tiffanie Gardner
UNITED STATES
- 13 Michaela Merkes
GERMANY
- 14 Matt Norman
UNITED STATES
- 15 Mathieu de Backer
BELGIUM
- 16 Wilson Chan
HONG KONG
- 17 Diane Jones
UNITED STATES
- 18 Patrycja Stadnik
POLAND
- 19 Clive Jones
UNITED KINGDOM
- 20 Irene Hilker
UNITED STATES
- 21 Raymond Tsang
HONG KONG
- 22 Ronald Dalton
UNITED STATES
- 23 Joey Pierrepoint
UNITED KINGDOM
- 24 Carlos Delgado
UNITED STATES
- 25 Davis Payne
UNITED KINGDOM
- 26 Paola Carolina Varetto
ITALY
- 27 Jose Alvor
MEXICO
- 28 Anita Watson
UNITED STATES
- 29 Ryszard Borzowski
POLAND
- 30 Elson Leung
HONG KONG
- 31 Elisabetta Medici
ITALY
- 32 Al Bradley
UNITED STATES
- 33 Maria Chan
HONG KONG
- 34 Shannon Johnson
UNITED STATES
- 35 Anil Oztürk
TURKEY
- 36 Tom LaGrega
UNITED STATES
- 37 Karl DeBattista
FRANCE
- 38 Susantha Perera
SRI LANKA
- 39 Valerie Purdie
CANADA
- 40 Vernell Joyner
UNITED STATES
- 41 Kevin Wadeson
UNITED KINGDOM
- 42 Agnieszka Dabrowska
POLAND
- 43 Rajjily Jegatheesan
DUBAI
- 44 Tito Tirabassi
ITALY
- 45 Oralia Márquez
HONDURAS
- 46 Doug Bland
UNITED STATES
- 47 Anders Ole Stegegerdet
NORWAY
- 48 Kammy Wong
HONG KONG
- 49 Junaid Shaikh
DUBAI
- 50 Hakan Gümüş
GERMANY
- 51 Ann Bellemans
BELGIUM
- 52 Sherri Cahill
UNITED KINGDOM
- 53 Luisa Sozzi
ITALY
- 54 Alison Beech
UNITED KINGDOM
- 55 Krzysztof Swierczynski
POLAND
- 56 Heather Barckhoff
UNITED STATES



“Our focus on constant innovation, coupled with an ongoing investment in new technology, has kept Paxar a global leader.”

INNOVATING ALL THE TIME



 **Paul Chamandy**
Vice President
Product Development
United States

“Innovation is the lifeblood of our business. It’s not a matter of being the least expensive provider — it’s a matter of being the smartest, to help our customers get their products to market more efficiently and to protect their valuable brands.

“We know that every garment is different. But they all have one thing in common — they all have labels. And so that becomes the most logical vehicle for carrying all sorts of information.

“For example, we’re doing some great things with bar codes. We’ve started working with the new two-dimensional bar codes — they don’t look anything like the commonly-seen series of one-dimensional lines — and we’re putting them on new substrates, like fabric, to use with apparel.

“One of our major European retail customers had us put bar codes on every care label so they could track each garment individually from its manufacture through the retail process. For a U.S.-based footwear company, we came up with a new process to put a bar code on the tongue label of every shoe, and we made it durable and heat sealable. Then we provided them with the equipment to apply it efficiently.

“Now we’re working on some really new ideas, like putting a tiny microchip in a label. It’s still too expensive for most applications, but eventually costs will come down. And customers already are interested. The idea is to create a truly ‘smart garment’ that can carry a wide range of data that you can store, read and even change at every step along the supply chain.

“We recently established the Center for Creative Ideas, to spearhead the development of breakthrough products and services. It meets regularly and draws on Paxar’s most experienced people from all over the world. We step outside our day-to-day concerns and do some really blue-sky thinking.

“That’s the reason our customers keep coming back to us — for new solutions that help them manage their businesses better.”

COMBINING **CREATIVITY** WITH **EXPERIENCE**



Gerard Spinella
Director
Creative Services
United States

“Paxar’s Creative Services cover the entire spectrum of our customers’ needs. On one hand, we love to start with a ‘blank piece of paper’ and design a new label, packaging item or a complete program from scratch. That’s a lot of fun, it gets our juices flowing and it’s our prime objective. On the other hand, we do whatever our customer requires to support its design and packaging goals, all with a focus on streamlining the process.

“In this business, customers are always looking for something new. For example, we’ve done a lot of work with jeans

manufacturers as well as many retail private-label programs, and it’s always an exciting challenge to come up with a different way to present five-pocket denim. We have a terrific team of creative people who each have an average of over 14 years of experience designing for our industry. Add that to our current product knowledge and production capabilities, and you have a powerful combination.

“We thrive on challenges. Recently, our designs were chosen for a new children’s wear program. The objective was to help the end-users — in this case it was children — to relate to the product. We created a branding program that connected different garment types in a simple way using the letters of the alphabet. Then we made it entertaining with illustrated characters and related ‘fun facts’ — all in an expandable format. It’s always a thrill to outdo our competitors, especially in a creative competition.

“But the real baseline common denominator for all our work is that everything we do is ready for production — it doesn’t need to be reinterpreted or compromised. We’ve worked with a lot of outside agencies and in-house departments that generate designs without having a clear understanding of the production process. Within Creative Services, we have the functional knowledge that allows everything we develop to be manufactured the way it is presented — and then coordinated for consistency and quality all around the world.”



- 1 Polo Ralph Lauren
- 2 Moschino
- 3 Marks & Spencer
- 4 Paxar® Sierra Sport™ 2 In-Store Printer
- 5 BHS
- 6 Cherokee
- 7 Foot Locker
- 8 Pathfinder® Ultra® Gold Printer
- 9 Next
- 10 Pendleton
- 11 Long Tall Sally
- 12 Sears
- 13 Galeries Lafayette
- 14 Karl Lagerfeld
- 15 Kenzo
- 16 Abercrombie & Fitch
- 17 Nike
- 18 Tommy Hilfinger
- 19 John Lewis Partnership Limited Too
- 20 Woolworths PLC
- 21
- 22 Jantzen
- 23 C&A
- 24 Monarch® Crown Series™ Labeler
- 25 Mothercare
- 26 Russell
- 27 OshKosh B'gosh
- 28 Arcadia Group PLC
- 29 Oxbow
- 30 French Connection
- 31 Aramark
- 32 J. C. Penney
- 33 Avon
- 34 Brooks Brothers
- 35 Wal-Mart
- 36 Eddie Bauer
- 37 Calvin Klein
- 38 The Saville Row Company
- 39 Chanel
- 40 Diesel
- 41 LOKPRINT™ Labeling System Boots
- 42
- 43 Adidas
- 44 Percheron™ High-Volume Printer
- 45 VF Jeanswear
- 46 Liz Claiborne
- 47 Harrods
- 48 Harley Davidson
- 49 Kookai
- 50 Levi Strauss & Co.
- 51 Umbro
- 52 Alfred Dunner
- 53 Mackays
- 54 Shipping Label
- 55 Sara Lee
- 56 Emporio Armani

“Our goal is to simplify
our customers’ lives, and
to be the easiest company
to do business with.”

RESPONDING QUICKLY TO **MAJOR MARKETS**



Sibel Suhubi
Managing Director
Turkey

“If you want to understand why Paxar has grown so quickly in Turkey, you must first understand that Turkey has a highly developed textiles industry — it’s one of the largest in the world. Europeans are quite familiar with our capabilities, and with the deep, accumulated knowledge base we have in textile manufacturing here in Turkey. So they’ve increasingly moved their apparel manufacturing this way over the past few years. In particular, we’ve gained a great deal of manufacturing business from the United Kingdom.

“We occupy a very strategic location, too — we can provide the European market with quick turnaround, and our flexible production capabilities enable us to meet just about whatever delivery schedules are needed.

“When Paxar first purchased a 70% stake in our family business, back in 1998, we had 28 employees. Paxar now owns 100% of the company. There are 680 employees and revenues have increased almost tenfold.

“We’re operating on a larger world stage now. It’s exciting to be part of a global company, but it also brings more work and responsibility. We have to plan in terms of what is happening in other apparel manufacturing centers around the world, and we pay close attention to the regulatory changes that affect us in the U.S. and the European Union.

“We’ve made substantial investments, and this year opened a brand new 4,500 square-meter facility, part of a 7,000 square-meter construction project. We have plenty of additional land for expansion, too, which we fully anticipate will be needed as we continue to grow. Today, Paxar Turkey can provide all of Paxar’s capabilities under one roof.

“There are still many challenges ahead. One is to keep growing, yet maintain the feel of an entrepreneurial company. We also have to earn our business in a very competitive market. Although our sales force may introduce us to U.S. and European customers, we have to compete very hard to earn and keep that business. Quality and service have been — and remain — the keys to our success.”

PRESERVING ENTREPRENEURSHIP



Gianpaolo Rustichelli
Managing Director
Italy

“Since 1994, when my family and our partners sold Collitex to Paxar, it’s been a very satisfying relationship for all parties. The strategic fit was perfect — in fact, I have more responsibility and more professional challenge than ever before.

“Collitex and Paxar had known and respected each other for a long, long time — but as competitors. Ours was a family business — it was like our baby — and we thought long and hard about selling the family jewel. But we realized that the industry was going global and we concluded that Collitex would

be left behind if it did not become part of a larger organization.

“Paxar has allowed us to continue managing our business as entrepreneurs. They also brought us a world-class customer list — the global brands — and encouraged us to expand our production capacity. As a regional Italian family business, we could never have acquired as customers many of the global companies with which we do business now. As part of Paxar, we soon doubled our sales — and more than doubled our profits.

“Today, we are one of the largest woven label manufacturers in Europe, turning out millions of labels a day. Bornemann & Bick, another sizeable European woven label company and formerly an intense competitor, was also acquired by Paxar, in 2000. It’s another example of a family business reaping the benefits of association with the global leader.

“Collectively, the Paxar woven label group of companies are the best at what we do. We collaborate to ensure that our quality, our creativity, our reliability and our global capabilities are unmatched by our competitors.

“But we know that the competition is not standing still, so we must continue to innovate to maintain our leadership. For example, Paxar has added functionality to woven labels by incorporating a variety of anti-theft and anti-counterfeit features. And the development of unique labels is relentless. It’s part of what adds to the excitement of being in the fashion business.”

“Our ability to anticipate the rapid migration of global apparel manufacturing was a key factor in our solid performance.”

- 1 Neil Kingery
UNITED STATES
- 2 Fatma Özer
TURKEY
- 3 Bob Stone
UNITED STATES
- 4 Moji Akingbade
SRI LANKA
- 5 Abdel Belal
FRANCE
- 6 Lorette Ansell
UNITED KINGDOM
- 7 Patrick Shiu
HONG KONG
- 8 Elena Mayes
HONDURAS
- 9 Hoon Nahm
KOREA
- 10 Eliana Liranzo
DOMINICAN REPUBLIC
- 11 Warren Brickman
UNITED STATES
- 12 Kumar Mathuria
DUBAI
- 13 Art Merritt
UNITED STATES
- 14 Eric Attia
FRANCE
- 15 Daniela
Iammarino
ITALY
- 16 Grace Kwok
HONG KONG
- 17 Fred Gulick
UNITED STATES
- 18 Manuel
Mercedes-Castillo
GERMANY
- 19 Marleen Joos
BELGIUM
- 20 Miguel Pardo
SPAIN
- 21 Beverly Russell
UNITED STATES
- 22 Dag Hårvik
NORWAY
- 23 Selina Goh
HONG KONG
- 24 Sacha Loi
UNITED KINGDOM
- 25 Marge Birss
CANADA
- 26 Mark Wrights
UNITED STATES
- 27 Karen Lee
HONG KONG
- 28 Jerome Pollack
UNITED STATES
- 29 Lou Rosenbaum
UNITED STATES
- 30 Michelle Galaud
FRANCE
- 31 Gino Bergamaschi
ITALY
- 32 Alma Kuo
TAIWAN
- 33 Sheila Woodyard
UNITED STATES
- 34 Mireya Hernandez
MEXICO
- 35 Miguel Fernandez
UNITED STATES
- 36 Martina
Czechowski
GERMANY
- 37 Ian Pacey
UNITED KINGDOM
- 38 Juan Diego
Chaverra
COLOMBIA
- 39 Ian Williams
UNITED KINGDOM
- 40 Henry Bizzell
UNITED STATES
- 41 Vicky Ngai
HONG KONG
- 42 Donna Stewart
UNITED STATES
- 43 Raj Patel
UNITED KINGDOM
- 44 Chris Schoonjans
BELGIUM
- 45 Li Yu Wai
HONG KONG
- 46 Elder Muñoz
HONDURAS
- 47 Hector Ruiz
MEXICO
- 48 Mike Anderson
UNITED STATES
- 49 Juan José Atuesta
COLOMBIA
- 50 Larri Williams
UNITED STATES
- 51 Anca Stefanescu
ROMANIA
- 52 Helen Ramsey
UNITED STATES
- 53 Crystal Current
UNITED STATES
- 54 V. Shukla
INDIA
- 55 Enrique Herrera
UNITED STATES
- 56 Yee Chau
HONG KONG



“ We outlined a ‘roadmap to excellence’ to drive improvements across a wide range of activities, and instituted a system of metrics for benchmarking our processes to ensure measurable improvement. ”

ATTAINING OPERATIONAL EXCELLENCE



Tony Harb
Director of Operations
Orangeburg, NY
United States

"I came to Paxar two years ago, and during that time I've seen changes put in place here that have made an enormous difference.

"Our Practical Process Improvement (PPI) initiative has really been a home run. People from all 11 of our U.S. plants are now communicating regularly and sharing best practices, and that's resulted in major cost savings and better customer service. It's gotten everyone working together — and taking seriously the ideas of 'teamwork, trust and loyalty.'

"Our people love the new 'flow down/flow up' communications initiative. We get a lot more information now about what corporate headquarters is thinking, and we also have a mechanism to take our ideas and our concerns about what's happening here at the plant right up to the top.

"In January, we started on the new 'roadmap to excellence,' with its month-by-month schedule for process improvement. It has 11 very specific metrics, and they're having a dramatic impact. For example, we've made a special effort to reduce delivery time, and that's improved by 10-15 percent. Similarly, we've cut out a lot more waste, and those savings go straight to the bottom line.

"We started a new Quality Council, and customers are impressed with the results. We're making everything ISO 9000 certified, to guarantee the consistency of all our products and processes. We also started a Customer Service Task Force, and now there's a direct line of communication between the sales force and the plant that can address any problem a customer has — twenty-four hours a day.

"Finally, we've invested in a lot of new equipment. In the past year, we spent a million dollars for a new dryer and a new drive system to my coating line — we're the only Paxar plant in the U.S. that makes coating for printed labels like the Zetex® synthetic patch on jeans, which feels as strong and as soft as leather. Now I can produce in nine hours what used to take 16. For me, that's a savings of a whole shift. We've already recouped almost half our investment in a single year.

"I'm now looking forward to PPI rolling out to the rest of our worldwide operations. It's starting to happen, and it should gather steam in 2003."

GROWING WITH OUR CUSTOMERS



Ramiro Cabanas
General Manager
Honduras

“During the 1990’s, the apparel industry in Central America saw explosive growth through the creation of *maquiladoras*, local factories producing for U.S. retailers and manufacturers. Although I was amazed at the magnitude of business being generated, I was hesitant to go work at factories with such labor-intensive processes, and with hundreds of people under a single roof.

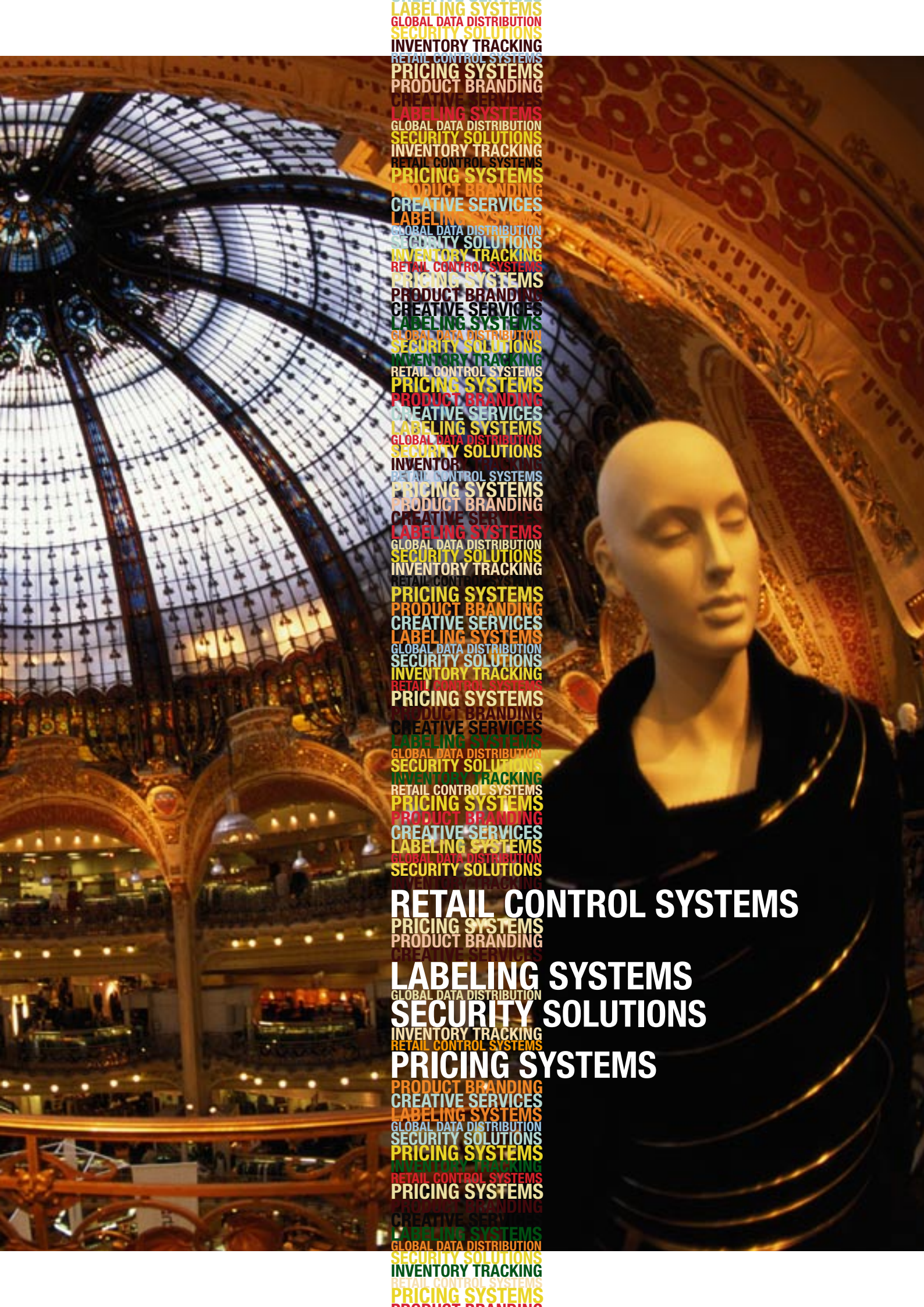
“Nevertheless, in late 1998, a group of Paxar executives endowed with foresight, looking to start operations in Honduras, provided me the opportunity to work in an enterprise that would grow just as quickly as the *maquiladoras*, but alongside them. Since then, Paxar de Honduras has grown to over 100 employees, and our average annual sales growth has exceeded 100%.

“Today, we have largely achieved our vision of becoming the first option in apparel identification solutions in Central America; nevertheless, opportunities for our future are still tremendous. Just last year, new U.S. trade legislation extended tariff benefits for the categories of apparel that we serve. As a result, U.S. retailers and manufacturers are continuing to migrate into the region, and this is providing us with further growth and diversification.

“Initially, our operations focused on manufacturing printed labels, a business that continues to grow. But now our facilities also include state-of-the-art prepress and flexographic printing equipment and machinery to produce paperboard hang tags and pressure-sensitive labels.

“Furthermore, the goods we distribute that are manufactured by Paxar’s U.S. operations have evolved from a modest offering to a complete family of products and services. In 2002, Paxar El Salvador was established to support Paxar de Honduras’ service bureau and distribution operations.

“The economic environment is challenging and we are sure to face increasing competition in the region, but we are thriving. With the support of Paxar Corporation, Paxar de Honduras is forging ahead.”



LABELING SYSTEMS
GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
INVENTORY TRACKING
RETAIL CONTROL SYSTEMS
PRICING SYSTEMS
PRODUCT BRANDING
CREATIVE SERVICES
LABELING SYSTEMS
GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
INVENTORY TRACKING
RETAIL CONTROL SYSTEMS
PRICING SYSTEMS
PRODUCT BRANDING
CREATIVE SERVICES
LABELING SYSTEMS
GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
INVENTORY TRACKING
RETAIL CONTROL SYSTEMS
PRICING SYSTEMS
PRODUCT BRANDING
CREATIVE SERVICES
LABELING SYSTEMS
GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
INVENTOR
RETAIL CONTROL SYSTEMS
PRICING SYSTEMS
PRODUCT BRANDING
CREATIVE SERVICES
LABELING SYSTEMS
GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
INVENTORY TRACKING

PRICING SYSTEMS
PRODUCT BRANDING
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LABELING SYSTEMS
GLOBAL DATA DISTRIBUTION
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INVENTORY TRACKING
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SECURITY SOLUTIONS

RETAIL CONTROL SYSTEMS

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CREATIVE SERVICES

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SECURITY SOLUTIONS

INVENTORY TRACKING

RETAIL CONTROL SYSTEMS
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CREATIVE SERVICES

LABELING SYSTEMS

GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
PRICING SYSTEMS

RETAIL CONTROL SYSTEMS
PRICING SYSTEMS
PRODUCT BRANDING
CREATIVE SERVICES

LABELING SYSTEMS

GLOBAL DATA DISTRIBUTION
SECURITY SOLUTIONS
INVENTORY TRACKING
RETAIL CONTROL SYSTEMS
PRICING SYSTEMS
PRODUCT BRANDING

“ We will continue to grow our top line by strengthening our customer relationships, opening new markets and making disciplined acquisitions. ”

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FIVE-YEAR FINANCIAL DATA

The selected consolidated financial data as of and for the five-year period ended December 31, 2002 has been derived from the Company's Consolidated Financial Statements. This data should be read in conjunction with the Consolidated Financial Statements and related Notes for the year ended December 31, 2002 and Management's Discussion and Analysis of Financial Condition and Results of Operations.

OPERATING RESULTS

(in millions, except employee and per share data)

	2002	2001	2000	1999	1998
AS REPORTED:					
Sales	\$ 667.8	\$ 610.6	\$ 645.4	\$ 661.8	\$ 611.6
EBITDA ^{(a)(c)}	90.1	86.0	96.7	107.3	95.3
Net income	40.3	18.8	77.5	33.4	33.6
Basic earnings per share	1.02	0.45	1.74	0.72	0.69
Diluted earnings per share ^(d)	1.00	0.44	1.73	0.71	0.68
AS ADJUSTED: ^(b)					
Sales	\$ 667.8	\$ 610.6	\$ 631.6	\$ 581.0	\$ 528.8
EBITDA ^{(a)(c)}	90.1	86.0	93.3	85.8	78.8

FINANCIAL CONDITION

Total assets	\$ 639.6	\$ 583.8	\$ 603.4	\$ 621.9	\$ 581.4
Total debt	166.7	166.4	166.8	208.7	207.1
Shareholders' equity	337.6	286.1	303.3	281.9	266.2
Total debt as a percent of total capital	33.1%	36.8%	35.5%	42.5%	43.8%

FINANCIAL STATISTICS

EBITDA as a percent of sales ^{(a)(b)(c)}	13.5%	14.1%	14.8%	14.8%	14.9%
Net income as a percent of sales	6.0%	3.1%	12.0%	5.0%	5.5%
Effective income tax rate	18.8%	17.2%	23.2%	32.9%	30.0%
Return on average shareholders' equity ^(e)	12.9%	6.4%	26.4%	12.2%	13.4%

OTHER DATA

Operating cash flow	\$ 62.7	\$ 53.5	\$ 69.8	\$ 72.7	\$ 68.5
Capital expenditures	25.5	24.2	32.2	31.9	35.7
Depreciation and amortization	29.6	32.8	31.9	38.3	32.7
Dividends	None	None	None	None	None
Number of employees at year end	7,700	6,400	6,000	5,900	4,950
Weighted average shares outstanding, diluted	40.3	42.4	44.8	47.2	49.4
Shares outstanding	39.2	38.9	42.1	46.7	47.9
Book value per share	\$ 8.61	\$ 7.35	\$ 7.20	\$ 6.04	\$ 5.56

^(a) Earnings before interest, taxes, depreciation and amortization.

^(b) Excludes International Imaging Materials, Inc. ("IIMAK") in 2000, 1999 and 1998.

^(c) Excludes non-recurring charges in 2001, 2000 and 1999, \$7.3 (\$4.7 after taxes) of post-employment benefit costs in 2001 and \$2.5 due to recording of Bornemann & Bick's inventories at fair value in 2000.

^(d) Excluding items cited in (c), \$50.3 (\$40.3 after taxes) of gain on sale of IIMAK in 2000 and amortization of goodwill in 2001, 2000, 1999 and 1998, diluted earnings per share would have been \$0.88 in 2001, \$1.01 in 2000, \$0.89 in 1999 and \$0.78 in 1998.

^(e) Excluding items cited in (c), \$50.3 (\$40.3 after taxes) of gain on sale of IIMAK in 2000 and amortization of goodwill in 2001, 2000, 1999 and 1998, return on average shareholders' equity would have been 12.7% in 2001, 15.5% in 2000, 15.4% in 1999 and 15.3% in 1998.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management has identified the following policies and estimates as critical to the Company's business operations and the understanding of the Company's results of operations. Note that the preparation of this Annual Report requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Company's financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from those estimates.

REVENUE RECOGNITION

The Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," in December 1999. The Company adopted SAB No. 101, as amended, in the fourth quarter of 2000. SAB No. 101 requires that four basic criteria be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the fee charged for products delivered and services rendered and the collectibility of those fees. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected.

SALES RETURNS AND ALLOWANCES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

Management must make estimates of potential future product returns related to current period product revenues. Management analyzes historical returns, current economic trends, and changes in customer demand and acceptance of the Company's products when evaluating the adequacy of the sales returns and allowances. Significant management judgments and estimates must be made and used in connection with establishing the sales returns and allowances in any accounting period. Material differences could result in the amount and timing of the Company's revenue for any period if management had made different judgments or utilized different estimates. Similarly, management must make estimates of the uncollectibility of the Company's accounts receivable. Management specifically analyzes accounts receivable, historical bad debt, customer concentrations, customer creditworthiness and current trends when evaluating the adequacy of the allowance for doubtful accounts. The Company's accounts receivable balance at December 31, 2002 was \$106.8, net of allowances of \$10.2.

VALUATION OF LONG-LIVED AND INTANGIBLE ASSETS AND GOODWILL

Management assesses the impairment of long-lived assets, identifiable intangibles and related goodwill whenever events or

changes in circumstances indicate that the carrying value may not be recoverable. Factors management considers important which could trigger an impairment include the following: (1) significant under-performance relative to expected historical or projected future operating results; (2) significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business; (3) significant negative industry or economic trends; (4) significant decline in the Company's stock price for a sustained period; and (5) the Company's market capitalization relative to net book value.

If management determines that the carrying value of long-lived assets and intangibles and related goodwill may not be recoverable based on the existence of one or more of the above indicators of impairment, management assesses the existence of an impairment by comparing the carrying value of the underlying assets with the estimated undiscounted future operating cash flows. If such impairment is found to exist, management measures it based on a projected discounted cash flow method using a discount rate determined by management to be commensurate with the risk inherent in the Company's current business model. Long-lived assets, net intangible assets and goodwill amounted to \$352.6 as of December 31, 2002.

On January 1, 2002, Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets," became effective and as a result, the Company no longer amortizes goodwill. The amortization of goodwill the Company recorded in 2001 was \$6.0 and would have been \$6.2 in 2002.

Under SFAS No. 142, the Company is required to test goodwill for impairment on an annual basis or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Accordingly, the Company completed its annual goodwill impairment assessment in 2002, and based on a comparison of the fair values of its reporting units with their carrying amounts, including goodwill, the Company has determined that the goodwill of the reporting units has not been impaired.

In 2002, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," also became effective. SFAS No. 144 provides guidance for the development of one accounting model based on the framework established in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and addresses significant implementation issues. The Company has adopted SFAS No. 144 in the first quarter of 2002 and determined that SFAS No. 144 did not have a material adverse impact on its results of operations or financial position.

ACCOUNTING FOR INCOME TAXES

As part of the process of preparing the consolidated financial statements, management is required to estimate the income taxes in each jurisdiction in which the Company operates. This process involves estimating the actual current tax exposure together with

assessing temporary differences resulting from the differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included on the consolidated balance sheet. Management must then assess the likelihood that the deferred tax assets will be recovered, and to the extent that management believes that recovery is not likely, the Company must establish a valuation allowance. If a valuation allowance is established or increased during any period, the Company must generally include this amount as an expense within the tax provision on the consolidated statement of income. Significant management judgment is required in determining the Company's provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred assets. The valuation allowance is based on management's estimates of the taxable income in the jurisdictions in which the Company operates and the period over which the deferred tax assets will be recoverable. In the event that actual results differ from these estimates or management adjusts these estimates in future periods, the Company may need to establish an additional valuation allowance, which could materially impact its results of operations. The gross deferred tax assets as of December 31, 2002 were \$21.9, net of a valuation allowance of \$6.4.

RESULTS OF OPERATIONS

OVERVIEW

In order to better serve a customer base consisting of retailers and apparel manufacturers, the Company during the second half of 2001 completed a strategic realignment of its core businesses into three geographic segments consisting of North, Central and South America ("Americas"), Europe, the Middle East and Africa ("EMEA"), and the Asia Pacific region ("Asia Pacific"). The cornerstone of this

initiative involved combining and unifying the previously separate Apparel Identification (labels and tags) and Labeling Solutions (bar code and price marking systems) business segments under a single sales and marketing organization. Structurally, the Company is now aligned in a geographic orientation across all product lines representing a significant change from the former single product, single region view. Management initiated this effort in direct response to a number of major forces impacting the Company's customer base including: (1) globalization, as manufacturers continue to migrate production outside the US and Western Europe and require greater product consistency and systems coordination; (2) global retail consolidation and the strengthening of private label retail brands; and (3) complexity fueled by a lengthening supply chain and the need to increase the speed to market. The Company believes that managing the business in a consistent manner across three geographic regions and presenting a single face globally make it easier for customers to conduct business with the Company. The Company also believes that its global operational capability responds directly to the needs of its customers, provides them with products and services that are consistent in quality, look and feel, and enhances the Company's value proposition to both its current and prospective customers. Moreover, the Company believes that the Company's concept to checkout capabilities, global manufacturing operations, worldwide distribution network, brand recognition and absolute commitment to providing its customers with a broad array of quality products and outstanding service are enabling the Company to expand its competitive advantage and market share.

The Company's results of operations for the years ended December 31, 2002, 2001 and 2000, respectively, in dollars and as a percent of sales are presented below:

	2002		2001		2000	
Sales	\$ 667.8	100.0%	\$ 610.6	100.0%	\$ 645.4	100.0%
Cost of sales	410.7	61.5	376.1	61.6	394.6	61.1
Gross profit	257.1	38.5	234.5	38.4	250.8	38.9
Selling, general and administrative expenses	196.3	29.4	182.6	29.9	182.8	28.3
Amortization of goodwill and other intangibles	0.3	—	6.0	1.0	5.7	0.9
Integration/restructuring and other costs	—	—	13.3	2.2	1.9	0.3
Operating income	60.5	9.1	32.6	5.3	60.4	9.4
Gain on sale of IIMAK	—	—	—	—	50.3	7.7
Interest expense, net	10.9	1.7	9.9	1.6	9.8	1.5
Income before taxes	49.6	7.4	22.7	3.7	100.9	15.6
Taxes on income	9.3	1.4	3.9	0.6	23.4	3.6
Net income	\$ 40.3	6.0%	\$ 18.8	3.1%	\$ 77.5	12.0%

Despite the continuance of a sluggish global economic environment and a marked downturn in retail sales, which began in mid-2000 and continued throughout 2002, the Company's sales increased \$57.2 or 9.4% to \$667.8 in 2002 from \$610.6 in 2001. The sales increase is attributable to increased customer demand

for the existing range of the Company's products ("organic sales growth") of \$17.0, favorable exchange rates of \$6.3 and acquisitions made during the second half of 2001 and 2002 of \$33.9. Management believes that the Company's ability to provide its customers with outstanding service, consistent quality and on-time

deliveries helped fuel the organic sales growth. In addition, management believes that the Company's investments in new product development, upgraded manufacturing equipment, new technology and sales and marketing initiatives have positioned the Company to compete successfully and achieve continued success in executing its core strategy of building volume and earnings. Nonetheless, there can be no assurance as to the extent or duration of this cyclical downturn or as to its future impact on the Company. Operating income was \$60.5 in 2002 compared with \$32.6 in 2001. As a percent of sales, operating income was 9.1% in 2002 and 5.3% in 2001. In 2001, the Company took non-recurring charges totaling \$13.3 in connection with implementing major restructuring initiatives. Excluding non-recurring charges, \$7.3 of post-employment benefit costs (see Note 15 of Notes to Consolidated Financial Statements) and amortization of goodwill (see Note 2 of Notes to Consolidated Financial Statements), operating income was \$59.2 or 9.7%, as a percent of sales, in 2001.

In 2001, sales decreased 5.4% to \$610.6 from \$645.4 in 2000. Excluding the impact of the operations of International Imaging Materials, Inc. ("IIMAK"), a business which was determined to be non-strategic and sold in early 2000 (see Note 4 of Notes to

Consolidated Financial Statements), sales declined 3.3% from the prior year. Operating income was \$32.6 in 2001 compared with \$60.4 in 2000. As a percent of sales, operating income was 5.3% in 2001 and 9.4% in 2000. Excluding the impact of the operations of IIMAK in 2000, non-recurring charges in 2001 and 2000, \$7.3 of post-employment benefit costs in 2001, \$2.5 due to recording of Bornemann & Bick's inventories at fair value in 2000, and amortization of goodwill in 2001 and 2000, operating income was \$59.2 in 2001 compared with \$68.4 in 2000, or as a percent of sales, 9.7% in 2001 and 10.8% in 2000.

Management believes that acquisitions will continue to be a fundamental element of the Company's growth. During 2002, the Company continued to integrate and assimilate the operations of prior acquisitions. In addition, the Company acquired the business and manufacturing assets of Diseños de Colección, a leading manufacturer of merchandising labels and tags for Mexican retailers and NTP Gandrubbakken AS, a manufacturer of heat transfer labels located in Norway.

SALES

The following table presents sales by geographic operating segment:

	2002		2001		2000	
Sales to unaffiliated customers:						
Americas	\$ 332.4	49.8%	\$ 322.2	52.8%	\$ 365.0	56.6%
EMEA	176.6	26.4	162.8	26.7	162.3	25.1
Asia Pacific	158.8	23.8	125.6	20.5	118.1	18.3
Total	\$ 667.8	100.0%	\$ 610.6	100.0%	\$ 645.4	100.0%

Americas sales include sales delivered through Company operations in North (primarily in the US), Central and South America. Sales increased \$10.2 or 3.2% in 2002 and, excluding sales of IIMAK of \$13.8 in 2000, declined \$29.0 or 8.3% in 2001. Management attributes the increase in 2002 to acquisitions and organic sales growth in the Company's Central and South America operations. Management notes, however, that organic sales in the Company's North America operations declined in 2002 and 2001 due to challenging economic and retail conditions that resulted in fewer orders and smaller average transaction size and generally reduced customer demand for the entire range of the Company's products. Additionally, management points to a sales migration trend that strengthened significantly in 2000 and continued into 2001 and 2002. Many of the Company's customers have steadily moved their production facilities outside the US where they have realized labor and cost efficiencies. This has resulted in a shift in sales mix primarily to Central and South America as well as outside the region to Asia Pacific.

EMEA's sales in 2002, which include sales delivered through Company operations in eleven European countries, the Middle East and Africa, increased \$13.8 or 8.5% in 2002. The increase is

attributable to acquisitions of \$12.4 and favorable exchange rates of \$6.3, offset by \$4.9 decline in organic sales. Management believes that the weakness in economic and retail conditions in EMEA and uncertainties surrounding global economic environment continued to dampen overall customer demand level, which in turn put pressure on EMEA's sales in 2002. The overall decline in organic sales was somewhat offset by significant sales growth in Turkey. In addition, the Company experienced sales migration to Asia Pacific as manufacturers sought to maximize production efficiencies. In 2001, sales were flat when compared with 2000. The increase attributable to organic sales growth of \$6.8, occurring primarily in Turkey and France, and acquisition related sales of \$7.5 was offset by a decline of \$13.8 in the UK.

Asia Pacific consists of the Company's operations in Hong Kong, China, India, Singapore, Sri Lanka, Australia and Korea. Sales increased \$33.2 or 26.4% in 2002. The increase is attributable to organic sales growth of \$29.5, a favorable exchange rate of \$0.3 and an acquisition of \$3.4. The Company's operations in this region have benefited significantly from the steady and continued migration of the Company's customers who have moved their production facilities outside the US and Western Europe to maximize

labor cost and operating performance efficiencies. In addition, the Company continued to gain market share in Asia Pacific. In 2001, sales increased \$7.5 or 6.4%. The increase was attributable to organic sales growth resulting from sales migration from the US and Western Europe of \$11.0 and an acquisition of \$2.0, offset by a sales decline of \$5.5, primarily in Singapore and Australia.

GROSS PROFIT

Gross profit, as a percent of sales, improved slightly to 38.5% in 2002 from 38.4% in 2001 and decreased in 2001 from 39.2% (excluding the impact of a fair value adjustment to inventories in connection with an acquisition) in 2000. In 2002, the negative impact of continued price compression and smaller less efficient production runs was offset by cost reductions in labor and materials. The decrease in 2001 was primarily due to price compression and more frequent and costly production runs on smaller orders. Since 2001, management's ongoing strategy has included implementing process improvements to reduce costs in all of its manufacturing facilities, efficiently re-deploying assets to manage production capacity and expanding production in new and emerging markets in order to maximize labor and cost efficiencies.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses ("SG&A"), as a percent of sales, were 29.4% in 2002 and 29.9% in 2001. During 2001, certain key executives of the Company signed employment agreements under which the Company is obligated to provide post-employment benefits. In connection with these agreements, the Company recorded \$1.5 and \$7.3 of post-employment benefit costs in 2002 and 2001, respectively, as SG&A. SG&A, as a percent of sales, was 28.3% in 2000. Management's ongoing objective is to control absolute SG&A dollars and further reduce the ratio of SG&A to sales by leveraging sales growth against the Company's fixed expense base.

INTEGRATION/RESTRUCTURING AND OTHER COSTS

During 2001, the Company implemented specific initiatives to enhance revenue growth, increase capital efficiency and lower operating costs. As a result, the Company recorded a pre-tax charge of \$13.3 relating to integration/restructuring and other costs. Of this amount, \$11.9 pertained to: (1) integration of certain manufacturing facilities and the consolidation of production sites as the Company closed and sold two manufacturing locations in North America and rationalized operations in the UK, Italy and Spain; and (2) strategic unification of the sales and marketing organization and a global organizational reshaping, which resulted in severance for 125 managerial and administrative personnel and 350 manufacturing positions in the US, Canada, Hong Kong, the UK, Italy and Turkey. In addition, the Company disposed of certain property, plant and equipment in connection with its strategic

initiatives and recorded a net write-off of \$1.4. During 2000, the Company recorded a pre-tax charge of \$1.9 relating to integration/restructuring and other costs. Of this amount, \$0.9 pertained to the integration of certain facilities and severance for personnel in Europe. The remaining \$1.0 pertained to the severance for personnel as well as other costs associated with the Company's decision to discontinue a supplies manufacturing operation in Canada.

OPERATING INCOME

Operating income was \$60.5 in 2002 compared with \$32.6 in 2001. As a percent of sales, operating income was 9.1% in 2002 and 5.3% in 2001. In 2001, the Company took non-recurring charges totaling \$13.3 in connection with implementing major restructuring initiatives. Excluding non-recurring charges, \$7.3 of post-employment benefit costs and amortization of goodwill, operating income was \$59.2, or 9.7% of sales, in 2001.

Operating income was \$32.6 in 2001 compared with \$60.4 in 2000. As a percent of sales, operating income was 5.3% in 2001 and 9.4% in 2000. Excluding the impact of the operations of IIMAK in 2000, non-recurring charges in 2001 and 2000, \$7.3 of post-employment benefit costs in 2001, \$2.5 due to recording of Bornemann & Bick's inventories at fair value in 2000, and amortization of goodwill in 2001 and 2000, operating income was \$59.2 in 2001 compared with \$68.4 in 2000, or as a percent of sales, 9.7% in 2001 and 10.8% in 2000.

On a reportable operating segment basis, operating income, as a percent of sales, was as follows: Americas (excluding the operations of IIMAK in 2000 and non-recurring charges and amortization of goodwill in 2001 and 2000) was 8.3%, 10.4% and 11.1% in 2002, 2001 and 2000, respectively; EMEA (excluding non-recurring charges and amortization of goodwill in 2001 and 2000) was 8.0%, 6.3% and 7.5% in 2002, 2001 and 2000, respectively; and Asia Pacific (excluding non-recurring charges in 2001 and amortization of goodwill in 2001 and 2000) was 22.9%, 23.5% and 24.0% in 2002, 2001 and 2000, respectively.

GAIN ON SALE OF IIMAK

During 2000, the Company sold 92.5% of IIMAK for \$127.5, which included \$120.0 in cash and \$7.5 of IIMAK preferred stock. The sale resulted in a gain of \$50.3 (\$40.3, net of taxes).

INTEREST EXPENSE, NET

Net interest expense related primarily to long-term debt increased to \$10.9 in 2002 and \$9.9 in 2001 from \$9.8 in 2000. The increase is attributable to higher average borrowings, reduced amounts of cash and cash equivalents and lower rates of return available on invested cash. Management expects this trend to continue in 2003.

TAXES ON INCOME

The effective income tax rate was 18.8% in 2002 compared with 17.2% in 2001 and 23.2% in 2000. The rate will change year to year based on non-recurring items including the geographic mix of pre-tax income, the timing and amounts of foreign dividends, and state and local taxes. In addition, the 2001 effective tax rate was reduced by incremental integration/restructuring and other costs and post-employment benefit costs to which higher tax rates applied. The tax rate in 2001 was further reduced as a result of a settlement with IIMAK (see Note 9 of the Notes to Consolidated Financial Statements). The 2000 effective tax rate reflects the benefit of various tax versus book basis items related to the sale of IIMAK.

LIQUIDITY AND CAPITAL RESOURCES

The table below presents summary cash flow information for the years indicated:

	2002	2001	2000
Net cash provided by operating activities	\$ 62.7	\$ 53.5	\$ 69.8
Net cash provided by (used in) investing activities	(47.9)	(28.1)	38.1
Net cash used in financing activities	(1.6)	(34.3)	(94.1)
Total change in cash and cash equivalents ^(a)	\$ 13.2	\$ (8.9)	\$ 13.8

^(a) Before the effect of exchange rate changes on cash flows.

OPERATING ACTIVITIES

Cash provided by operating activities is the Company's primary source of funds to finance operating needs and growth opportunities. The Company's revolving credit agreement provides additional liquidity for seasonal and specific-purpose expenditures. Net cash provided by operating activities was \$62.7, \$53.5 and \$69.8 in 2002, 2001 and 2000, respectively. Management believes that the Company will continue to generate sufficient cash from its operating activities for the foreseeable future supplemented by availability under its revolving credit agreement to fund its working capital needs, strengthen its balance sheet and support its growth strategy of expanding its geographic reach and product offerings.

Working capital and the corresponding current ratio were \$154.4 and 2.4:1 and \$132.2 and 2.3:1 at December 31, 2002 and 2001, respectively. The increase in working capital from 2001 to 2002 resulted from increases in cash and cash equivalents, accounts receivable, inventories and other current assets, offset by increases in due to banks, accounts payable and accrued liabilities and accrued taxes on income.

INVESTING ACTIVITIES

Management believes that acquisitions will continue to be a fundamental element of the Company's growth. In 2002, the Company acquired the business and manufacturing assets of Diseños de Colección, a leading manufacturer of merchandising labels and tags for Mexican retailers and NTP Gandrubbakken AS, a manufacturer of heat transfer labels located in Norway. Management does not expect these two acquisitions to have a material impact on the Company's results of operations or financial position. In addition, the Company continued to integrate and assimilate the operations of its prior acquisitions, upgrade production machinery, proceed with its Enterprise Resource Planning ("ERP") system conversions, and grow and expand the Company's operations in the emerging markets of Central and South America, EMEA and Asia Pacific. Capital expenditures in 2002 were \$25.5 compared with \$24.2 in 2001 and were funded by cash provided by operating activities. In 2003, management anticipates that the Company's capital expenditures for production machinery upgrades, ERP system conversions and growth and expansion of the Company's operations in the Central and South America, EMEA and Asia Pacific markets will be approximately \$31.

Investing activities during 2001 primarily consisted of the acquisitions of Europrint S.A., Independent Machine Service, Inc., and certain assets of U.S. Label Corporation, continued production machinery upgrades and the ERP system conversions, and the costs associated with growth and expansion of the Company's operations in the Central and South America, EMEA and Asia Pacific markets.

Net cash provided by investing activities in 2000 resulted from net proceeds from the sale of 92.5% of IIMAK, offset by the cost of the Company's acquisition of Bornemann & Bick group of companies, continued upgrade of the production equipment, the costs associated with growth and expansion of the Company's operations in the Central and South America and Asia Pacific markets and continued investment in the ERP system conversions.

MATERIAL COMMITMENTS

Total rental expense for all operating leases amounted to \$8.1 in 2002, \$6.9 in 2001 and \$6.2 in 2000.

Minimum rental commitments for all non-cancelable operating leases are as follows:

Years ending December 31,	
2003	\$ 7.2
2004	5.5
2005	4.1
2006	3.0
2007	2.6
Thereafter	11.6
	\$ 34.0

FINANCING ACTIVITIES

The components of total capital as of December 31, 2002, 2001 and 2000, respectively, are presented below:

	2002	2001	2000
Due to banks	\$ 2.1	\$ 0.4	\$ 0.9
Current maturities of			
long-term debt	0.1	0.1	0.1
Long-term debt	164.5	165.9	165.8
Total debt	166.7	166.4	166.8
Shareholders' equity	337.6	286.1	303.3
Total capital	\$ 504.3	\$ 452.5	\$ 470.1
Total debt as a percent			
of total capital	33.1%	36.8%	35.5%

Management believes that the borrowings available under the Company's revolving credit agreement provide sufficient liquidity to supplement the Company's operating cash flow to support the Company's planned business activities and seasonal and specific-purpose expenditures. For the years ended December 31, 2002, 2001 and 2000, net repayments of the Company's outstanding debt were \$1.1, \$0.5 and \$45.6, respectively. In 2000, the Company repaid the outstanding balance of \$49.4 under its revolving credit agreement out of the net proceeds from the sale of 92.5% of IIMAK.

The Company has various stock-based compensation plans, including two stock option plans, a long-term incentive plan, and an employee stock purchase plan. For the years ended December 31, 2002, 2001 and 2000, the Company received proceeds of \$9.7, \$4.7 and \$2.5, respectively, from common stock issued under its employee stock option and stock purchase plans.

The Company has a stock repurchase plan with an authorization to use up to \$150 in total for the repurchase of its shares. The shares may be purchased from time to time at prevailing prices in the open-market, by block purchases, or in privately-negotiated transactions. The Company repurchased 285,000 shares for an aggregate price of \$3.8, or \$13.38 per share, in 2002, 3,238,000 shares for an aggregate price of \$33.1, or \$10.22 per share, in 2001 and 5,035,000 shares for an aggregate price of \$51.0, or \$10.14 per share, in 2000. Since the inception of the stock repurchase program, the Company repurchased 11,824,000 of its shares for an aggregate price of \$116.9, or \$9.89 per share. The Company immediately retired the repurchased shares. As of December 31, 2002, the Company had \$33.1 available under its \$150 stock repurchase program authorization. The Company may continue to repurchase its shares under the existing authorization, depending on market conditions. The Company believes that funds from future operating cash flows and funds available under its revolving credit agreement are adequate to allow it to continue to repurchase its shares under the stock repurchase plan.

During 2001, the Company entered into a stock repurchase agreement with an officer (the "shareholder"), who is also a director and principal shareholder of the Company, under which the Company may be required to purchase from the shareholder up to a certain

number of its shares each year (see Note 18 of Notes to Consolidated Financial Statements). The Company repurchased from the shareholder 399,000 of its shares for \$6.4, or \$15.96 per share in 2002 and 400,000 of its shares for \$5.4, or \$13.40 per share in 2001. The Company immediately retired the shares it purchased from the shareholder. The Company's obligations under the stock repurchase agreement are in addition to its authorization under the stock repurchase plan.

FINANCING ARRANGEMENT — AMENDED AND RESTATED CREDIT AGREEMENT

In September 2002, the Company entered into a three-year, \$150 revolving credit agreement with a group of five domestic and international banks. The agreement amended and restated the Company's previous revolving credit facility, which would have expired on August 11, 2003. Under the credit agreement, the Company pays a facility fee determined by reference to the debt to EBITDA ratio. The applicable percentage for the facility fee at December 31, 2002 was 0.275%. Borrowings under the credit agreement bear interest at rates referenced to the London Interbank Offered Rate with applicable margins varying in accordance with the Company's attainment of specified financial thresholds or, at the Company's option, rates competitively bid among the participating banks or the Prime Rate, as defined (4.25% and 4.75% at December 31, 2002 and 2001, respectively), and are guaranteed by certain domestic subsidiaries of the Company.

The credit facility, among other things, limits the Company's ability to change the nature of its businesses, incur indebtedness, create liens, sell assets, engage in mergers and make investments in certain subsidiaries. The credit facility contains certain customary events of default, which generally give the banks the right to accelerate payments of outstanding debt. Under the credit facility, these events include: failure to maintain required financial covenant ratios, as described below; failure to make a payment of principal, interest or fees within two days of its due date; default, beyond any applicable grace period, on any aggregate indebtedness of the Company exceeding \$0.5; judgment or order involving a liability in excess of \$0.5; and occurrence of certain events constituting a change of control of the Company. The Company does not anticipate the occurrence of any of these default events.

Under the most restrictive debt covenants as defined in the Company's revolving credit agreement, the Company must maintain at all times an excess of consolidated total assets over total liabilities of not less than the sum of \$274 plus 35% of consolidated net income for the period after July 1, 2002 plus 100% of the net cash proceeds received by the Company from the sale or issuance of its capital stock on and after July 1, 2002. The Company's maximum allowable debt to EBITDA ratio, as defined, is 3.0 to 1 and minimum allowable fixed charge coverage ratio, as defined, is 1.5 to 1.

The Company is in compliance with the financial covenants of its financing arrangements. The Company discloses the details of the compliance calculation to its banks and certain other lending institutions in a timely manner.

OFF BALANCE SHEET ARRANGEMENTS

The Company has no material transactions, arrangements, obligations (including contingent obligations), or other relationships with unconsolidated entities or other persons, that have or are reasonably likely to have a material current or future impact on its financial position, changes in financial position, results of operations, liquidity, capital expenditures, capital resources, or significant components of revenues or expenses.

MARKET RISK

This document contains certain "forward-looking statements" concerning the Company's objectives and expectations with respect to gross profit, expenses, inventory performance, capital expenditures and cash flow. In addition, management makes other forward-looking statements from time to time concerning objectives and expectations. The Company's success in achieving the objectives and expectations is somewhat dependent upon economic conditions, competitive developments and consumer attitudes. However, certain assumptions are specific to the Company and/or the markets in which it operates.

The following assumptions, among others, are "risk factors" which could affect the likelihood that the Company will achieve the objectives and expectations communicated by management: (1) that there are no substantial adverse changes in the exchange relationship between the British Pound Sterling or the Euro and the US Dollar; (2) that low or negative economic growth, particularly in the US, the UK or in Europe, will not occur and affect consumer spending in those countries; (3) that there will continue to be adequate supply of the Company's raw materials and components at economic terms; (4) that its new ERP systems can be successfully integrated into the Company's operations; (5) that the Company can continue to expand its manufacturing and distribution capacity in developing markets; and (6) that there are no substantial adverse changes in the political climates of developing

and other countries in which the Company has operations and countries in which the Company will endeavor to establish operations in consort with its major customers' migrations to lower-production-cost countries.

In the normal course of business, the Company is exposed to interest rate and foreign currency exchange rate risks that could impact its results of operations. The Company may reduce its market risk exposures by creating offsetting positions through the use of derivative financial instruments. The Company does not use derivative financial instruments for trading purposes.

A 10% change in interest rates affecting the Company's floating rate debt instruments would have an insignificant impact on the Company's pre-tax earnings and cash flows over the next fiscal year. Such a move in interest rates would have no effect on the fair value of the Company's floating rate debt instruments. In addition, all of the Company's derivatives have high correlation with the underlying exposure and are highly effective in offsetting underlying currency movements. Accordingly, changes in derivative fair values are expected to be offset by changes in value of the underlying exposures.

The Company sells its products in many countries and a substantial portion of its net sales and costs and expenses are denominated in foreign currencies. A significant portion of the Company's sales in 2002 was derived from customers located outside the US, principally in EMEA and Asia Pacific, where the Company also manufactures its products. This exposes the Company to risks associated with changes in foreign currency that can adversely impact revenues, net income and cash flow. In addition, the Company is potentially subject to concentrations of credit risk, principally in accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company's major customers are retailers and global apparel manufacturers that have historically paid their accounts payable balances with the Company.

Paxar Corporation and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31,
(in millions, except per share amounts)

	2002	2001	2000
Sales	\$ 667.8	\$ 610.6	\$ 645.4
Cost of sales	410.7	376.1	394.6
Gross profit	257.1	234.5	250.8
Selling, general and administrative expenses	196.3	182.6	182.8
Amortization of goodwill and other intangibles	0.3	6.0	5.7
Integration/restructuring and other costs	—	13.3	1.9
Operating income	60.5	32.6	60.4
Gain on sale of IIMAK	—	—	50.3
Interest expense, net	10.9	9.9	9.8
Income before taxes	49.6	22.7	100.9
Taxes on income	9.3	3.9	23.4
Net income	\$ 40.3	\$ 18.8	\$ 77.5
Basic earnings per share	\$ 1.02	\$ 0.45	\$ 1.74
Diluted earnings per share	\$ 1.00	\$ 0.44	\$ 1.73
Weighted average shares outstanding:			
Basic	39.4	41.8	44.5
Diluted	40.3	42.4	44.8

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED BALANCE SHEETS

<i>(in millions, except share amounts)</i>	December 31, 2002	December 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49.6	\$ 35.1
Accounts receivable, net of allowances of \$10.2 and \$9.3 in 2002 and 2001, respectively	106.8	100.9
Inventories, net	83.8	77.7
Deferred income taxes	10.5	9.2
Other current assets	14.3	11.4
Total current assets	265.0	234.3
Property, plant and equipment, net	154.9	145.2
Goodwill and other intangibles, net	197.7	181.7
Other assets	22.0	22.6
Total assets	\$ 639.6	\$ 583.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Due to banks	\$ 2.1	\$ 0.4
Current maturities of long-term debt	0.1	0.1
Accounts payable and accrued liabilities	94.5	90.0
Accrued taxes on income	13.9	11.6
Total current liabilities	110.6	102.1
Long-term debt	164.5	165.9
Deferred income taxes	12.1	12.7
Other liabilities	14.8	17.0
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized, none issued and outstanding	—	—
Common stock, \$0.10 par value, 200,000,000 shares authorized, 39,230,384 and 38,929,163 shares issued and outstanding in 2002 and 2001, respectively	3.9	3.9
Paid-in capital	11.2	11.7
Retained earnings	330.9	290.6
Accumulated other comprehensive loss	(8.4)	(20.1)
Total shareholders' equity	337.6	286.1
Total liabilities and shareholders' equity	\$ 639.6	\$ 583.8

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

For the years ended December 31, 2002, 2001 and 2000 (in millions)	Common Stock		Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Comprehensive Income
	Shares	Amount					
Balance, December 31, 1999	46.7	\$ 4.7	\$ 93.2	\$ —	\$ 194.3	\$ (10.3)	
Comprehensive income:							
Net income	—	—	—	—	77.5	—	\$ 77.5
Other comprehensive loss:							
Translation adjustments	—	—	—	—	—	(7.6)	(7.6)
Comprehensive income	—	—	—	—	—	—	\$ 69.9
Shares issued — various plans	0.4	—	2.5	—	—	—	
Purchase of common shares	—	—	—	(51.0)	—	—	
Retirement of treasury shares	(5.0)	(0.5)	(50.5)	51.0	—	—	
Balance, December 31, 2000	42.1	4.2	45.2	—	271.8	(17.9)	
Comprehensive income:							
Net income	—	—	—	—	18.8	—	\$ 18.8
Other comprehensive loss:							
Translation adjustments	—	—	—	—	—	(2.2)	(2.2)
Comprehensive income	—	—	—	—	—	—	\$ 16.6
Shares issued — various plans	0.5	—	4.7	—	—	—	
Purchase of common shares	—	—	—	(38.5)	—	—	
Retirement of treasury shares	(3.7)	(0.3)	(38.2)	38.5	—	—	
Balance, December 31, 2001	38.9	3.9	11.7	—	290.6	(20.1)	
Comprehensive income:							
Net income	—	—	—	—	40.3	—	\$ 40.3
Other comprehensive loss:							
Translation adjustments	—	—	—	—	—	12.3	12.3
Post-employment benefit obligation adjustments	—	—	—	—	—	(0.6)	(0.6)
Comprehensive income	—	—	—	—	—	—	\$ 52.0
Shares issued:							
Various plans	0.8	0.1	9.6	—	—	—	
Warrants	0.2	—	—	—	—	—	
Purchase of common shares	—	—	—	(10.2)	—	—	
Retirement of treasury shares	(0.7)	(0.1)	(10.1)	10.2	—	—	
Balance, December 31, 2002	39.2	\$ 3.9	\$ 11.2	\$ —	\$ 330.9	\$ (8.4)	

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWSFor the years ended December 31,
(in millions)

	2002	2001	2000
OPERATING ACTIVITIES			
Net income	\$ 40.3	\$ 18.8	\$ 77.5
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	29.6	32.8	31.9
Deferred income taxes	(1.5)	(2.0)	1.4
Gain on sale of IIMAK, net of taxes	—	—	(40.3)
Gain on sale of property and equipment, net	(0.2)	(0.7)	—
Write-off of property and equipment	1.1	3.3	—
Post-employment benefit costs	1.5	7.3	—
Changes in assets and liabilities, net of businesses acquired:			
Accounts receivable	(5.0)	11.3	8.0
Inventories	(5.5)	4.9	(2.9)
Other current assets	(2.7)	(1.5)	5.2
Accounts payable and accrued liabilities	4.1	(8.9)	(8.1)
Accrued taxes on income	2.2	(11.1)	3.5
Other, net	(1.2)	(0.7)	(6.4)
Net cash provided by operating activities	62.7	53.5	69.8
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(25.5)	(24.2)	(32.2)
Acquisitions, net of cash acquired	(21.7)	(10.3)	(52.5)
Proceeds from sale of IIMAK, net	—	—	119.8
Proceeds from sale of property and equipment	0.3	4.3	—
Other, net	(1.0)	2.1	3.0
Net cash provided by (used in) investing activities	(47.9)	(28.1)	38.1
FINANCING ACTIVITIES			
Net increase (decrease) in short-term debt	1.7	(0.5)	(44.2)
Additions to long-term debt	91.0	23.6	323.5
Reductions in long-term debt	(93.8)	(23.6)	(324.9)
Purchase of common stock	(10.2)	(38.5)	(51.0)
Proceeds from common stock issued under employee stock option and stock purchase plans	9.7	4.7	2.5
Net cash used in financing activities	(1.6)	(34.3)	(94.1)
Effect of exchange rate changes on cash flows	1.3	(0.3)	(1.7)
Increase (decrease) in cash and cash equivalents	14.5	(9.2)	12.1
Cash and cash equivalents at beginning of year	35.1	44.3	32.2
Cash and cash equivalents at end of year	\$ 49.6	\$ 35.1	\$ 44.3

The accompanying notes are an integral part of the financial statements.

NOTE 1: DESCRIPTION OF BUSINESS

Paxar Corporation ("Paxar" or the "Company") is a global leader in providing innovative merchandising systems to retailers and apparel manufacturers. Paxar's concept to checkout capabilities, global manufacturing operations, worldwide distribution network and brand recognition are enabling the Company to expand its competitive advantage and market share.

Paxar brings to its customers a fusion of innovative fashion ideas and technological expertise to help them achieve retailing success. The Company's business includes the design, manufacture and distribution of a wide variety of tags and labels, including bar-coded labels, as well as printers and the associated supplies for customers who prefer the flexibility of creating labels and tags on an "as-needed" basis in their facilities. Product design, process reengineering and data management services are becoming more important as the Company continues to differentiate itself as a global leader.

Paxar has core competencies that range from graphic design to coating, weaving, design of mechanical and electronic printers, systems integration and creation of software.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of Paxar and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

CASH AND CASH EQUIVALENTS

The Company considers all highly liquid instruments purchased with an original maturity of 90 days or less to be cash equivalents.

ACCOUNTS RECEIVABLE AND SALES RETURNS

The Company's domestic and international presence and large, diversified customer base serve to limit overall credit risk and the potential for future product returns. The Company maintains reserves for potential credit losses and sales returns and, historically, such losses, in the aggregate, have not exceeded management's estimates.

INVENTORIES

Inventories are stated at the lower of cost or market. The value of inventories determined using the last-in, first-out ("LIFO") method was \$12.9 and \$13.9 as of December 31, 2002 and 2001, respectively. The value of all other inventories determined using the first-in, first-out ("FIFO") method was \$70.9 and \$63.8 as of December 31, 2002 and 2001, respectively. During 2000, the Company changed its method of accounting for a portion of inventories in the US from LIFO to FIFO. The Company believes the FIFO method results in a closer matching of costs and revenue during periods of declining prices, and it is the primary method used in the industry in which this unit operates. This change has been applied by retroactively restating the accompanying consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost and depreciated by the straight-line method over the estimated useful lives of the assets. Upon retirement or other disposition, the cost and

accumulated depreciation are removed from the asset and accumulated depreciation accounts, and the net gain or loss is reflected in income. Expenditures for maintenance and repairs are charged against income as incurred. Significant expenditures for improvements and renewals are capitalized.

INCOME TAXES

Deferred tax assets and liabilities are established based on differences between the financial statement and tax bases of assets and liabilities using presently enacted tax rates. The classification of deferred tax assets and liabilities corresponds with the classification of the underlying assets and liabilities giving rise to the difference. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred taxes are not provided on that portion of undistributed earnings of non-US subsidiaries which is considered to be permanently reinvested.

REVENUE RECOGNITION

Revenue is recognized when title to the product passes to the customer, generally upon shipment.

The Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements," in December 1999. SAB No. 101 requires that four basic criteria be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. The Company adopted SAB No. 101, as amended, in the fourth quarter of 2000 and determined there was no material impact on annual revenue and earnings or the timing of revenue and profit recognition between quarters during the year.

EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects the potential dilutive effect of additional common shares that are issuable upon exercise of outstanding stock options and warrants.

FOREIGN CURRENCY TRANSLATION

Assets and liabilities of the Company's foreign subsidiaries are translated into US dollars using the exchange rates in effect at the balance sheet date. Results of operations are translated using the average exchange rate prevailing throughout the period. The effects of exchange rate fluctuations from translating foreign currency assets and liabilities into US dollars are included as a component of other comprehensive earnings within shareholders' equity. Gains and losses resulting from foreign currency transactions are included in net income and were not significant in the past three years.

FINANCIAL INSTRUMENTS

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137,

and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," on January 1, 2001. These statements outline the accounting treatment for all derivative activities and require that an entity recognize all derivative instruments as either assets or liabilities on its balance sheet at their fair value. Gains and losses resulting from changes in the fair value of derivatives are recorded each period in current or comprehensive earnings, depending on whether a derivative is designated as part of an effective hedge transaction and the resulting type of hedge transaction. Gains and losses on derivative instruments reported in comprehensive earnings will be reclassified to earnings in the period in which earnings are affected by the hedged item. The cumulative effect on net income and other comprehensive income of adopting these standards was not material to net income and other comprehensive income for the year ended December 31, 2002 and shareholders' equity at January 1, 2002.

The Company manages a foreign currency hedging program intended to reduce the Company's risk in foreign currency-denominated transactions by entering into forward foreign exchange contracts.

The Company formally designates and documents the hedging relationship and risk management objective for undertaking the hedge. The documentation describes the hedging instrument, the item being hedged, the nature of the risk being hedged and the Company's assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

The fair value of outstanding forward foreign exchange contracts at January 1, 2002 and December 31, 2002 for delivery of various currencies at various future dates and the changes in fair value recorded in income during 2002 were not material.

All financial instruments of the Company with the exception of hedge instruments are carried at cost, which approximates fair value.

GOODWILL

Goodwill represents the excess of the cost of acquired companies over the sum of identifiable net assets. Through December 31, 2001, goodwill had been amortized on a straight-line basis over a period not to exceed 40 years.

The Company evaluates goodwill for impairment on an annual basis or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Factors the Company considers important which could trigger an impairment include the following: (1) significant under-performance relative to expected historical or projected future operating results; (2) significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business; (3) significant negative industry or economic trends; (4) significant decline in the Company's stock price for a sustained period; and (5) the Company's market capitalization relative to net book value. The Company assesses the existence of an impairment by comparing the fair values of its reporting units with their carrying amounts, including goodwill. If it is determined that the impairment exists, the Company measures the impairment by comparing each reporting unit's implied fair value of goodwill with its corresponding carrying amount and then classifies it as an operating expense.

IMPAIRMENT OF LONG-LIVED ASSETS

The Company periodically reviews its long-lived assets for impairment by comparing the carrying values of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss is recognized during that period. The impairment loss is calculated as the difference between asset carrying values and the present value of estimated net cash flows or comparable market values, giving consideration to recent operating performance and pricing trends. In 2002, 2001 and 2000, there were no significant impairment losses related to long-lived assets.

USE OF ESTIMATES

The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the US requires management to use certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications have been made to the prior years' consolidated financial statements and related note disclosures to conform to the presentation used in the current period.

RECENT ACCOUNTING PRONOUNCEMENTS

On June 29, 2001, the Financial Accounting Standards Board ("FASB") issued two new statements, SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets."

SFAS No. 141 requires that the purchase method be used for business combinations initiated after June 30, 2001 and eliminates the use of the pooling-of-interests method. SFAS No. 141 also expands the definition of intangible assets acquired in a purchase transaction. As a result, the purchase price allocation of future business combinations may be different from the allocation that would have resulted under the old rules.

SFAS No. 142 changed the method by which companies may recognize intangible assets in purchase business combinations and generally requires that identifiable intangible assets be recognized separately from goodwill. In addition, it stipulates that goodwill and certain intangible assets will no longer be amortized. Accordingly, the amortization of goodwill for previous acquisitions ceased upon the Company's adoption of SFAS No. 142 on January 1, 2002. The amortization of goodwill was \$6.0 in 2001 and would have been \$6.2 in 2002.

Under SFAS No. 142, the Company is required to test goodwill for impairment on an annual basis or if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Accordingly, the Company completed its annual goodwill impairment assessment in 2002, and based on a comparison of the fair values of its reporting units with their carrying amounts, including goodwill, the Company has determined that the goodwill of the reporting units has not been impaired.

The following table presents a reconciliation of reported net income and earnings per share to adjusted net income and earnings per share had SFAS No. 142 been in effect at January 1, 2000:

	2001	2000
Reported net income	\$ 18.8	\$ 77.5
Add back: Amortization of goodwill, net of income taxes	5.4	5.1
Adjusted net income	\$ 24.2	\$ 82.6
Reported earnings per share (basic)	\$ 0.45	\$ 1.74
Add back: Amortization of goodwill, net of income taxes	0.13	0.12
Adjusted earnings per share (basic)	\$ 0.58	\$ 1.86
Reported earnings per share (diluted)	\$ 0.44	\$ 1.73
Add back: Amortization of goodwill, net of income taxes	0.13	0.11
Adjusted earnings per share (diluted)	\$ 0.57	\$ 1.84

The changes in the carrying amounts of goodwill for the year ended December 31, 2002 are as follows:

	Beginning Balance January 1, 2002 ^(a)	Goodwill Acquired	Foreign Currency Translation Adjustments	Ending Balance December 31, 2002
Americas	\$ 104.7	\$ 6.3	\$ —	\$ 111.0
EMEA	59.8	3.3	4.3	67.4
Asia Pacific	17.2	0.1	—	17.3
Total	\$ 181.7	\$ 9.7	\$ 4.3	\$ 195.7

^(a) Reflects allocation of goodwill pursuant to the Company's adoption of SFAS No. 142.

In August 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. The provisions of SFAS No. 143 are effective for fiscal years beginning after June 15, 2002. The Company will adopt SFAS No. 143 beginning in the first quarter of 2003. The Company believes that the adoption of SFAS No. 143 will not have a material impact on its results of operations or financial position.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS No. 144 provides guidance for the development of one accounting model based on the framework established in SFAS No. 121, and addresses significant implementation issues. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 144 in the first quarter of 2002 and determined that it did not have a material impact on its results of operations or financial position.

In April 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections." SFAS No. 145 rescinds SFAS No. 4, which

required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 64 amended SFAS No. 4, and is no longer necessary because SFAS No. 4 has been rescinded. SFAS No. 44 was issued to establish accounting requirements for the effects of transition to the provisions of the Motor Carrier Act of 1980. Because the transition has been completed, SFAS No. 44 is no longer necessary. SFAS No. 145 amends SFAS No. 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. SFAS No. 145 also makes technical corrections to existing pronouncements. The Company determined that the adoption of SFAS No. 145 will not have a material impact on its results of operations or financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 nullifies Emerging Issues Task Force ("EITF") Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF Issue No. 94-3, a liability for an exit cost was recognized at the date of a commitment to an exit plan. The provisions of SFAS No. 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes that the adoption of SFAS No. 146 will not have a material impact on its results of operations or financial position.

In November 2002, the FASB issued FASB Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 expands the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees and requires the guarantor to recognize a liability for the fair value of an obligation assumed under a guarantee. It clarifies the requirements of SFAS No. 5, "Accounting for Contingencies," relating to guarantees. In general, FIN No. 45 applies to contracts of indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or equity security of the guaranteed party. It requires disclosure of the nature of the guarantee, the maximum potential amount of future payments that the guarantor could be required to make under the guarantee, and the current amount of the liability, if any, for the guarantor's obligation under the guarantee. The recognition requirements of FIN No. 45 are to be applied prospectively to guarantees issued or modified after December 31, 2002. The Company believes that the recognition requirements of FIN No. 45 will not have a material impact on its results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and Disclosure." SFAS No. 148 provides guidance on how to transition from the intrinsic value method of accounting for stock-based employee compensation under Accounting Principles Board ("APB") No. 25 to the fair value method of accounting under SFAS No. 123, if a company so elects. The Company believes that the adoption of SFAS No. 148 will not have a material impact on its results of operations or financial position.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 provides guidance on how to identify a variable interest entity ("VIE") and determine when the assets, liabilities and non-controlling interests, and results of operations of a VIE need to be included in a company's consolidated financial statements. A company that holds variable interests in an entity will need to consolidate the entity if the company's interest in the VIE is such that the company will absorb a majority of the VIE's expected losses and/or receive a majority of the entity's expected residual returns, if they occur. FIN No. 46 also requires additional disclosures by primary beneficiaries and other significant variable interest holders. The provisions of FIN No. 46 became effective upon issuance. The Company believes that FIN No. 46 will not have a material impact on its results of operations or financial position.

NOTE 3: BUSINESS ACQUISITION

BORNEMANN & BICK

On May 18, 2000, the Company acquired the Bornemann & Bick ("B&B") group of companies for approximately \$51.2. The B&B companies manufacture apparel identification products. The acquisition has been accounted for as a purchase with assets acquired and liabilities assumed recorded at their estimated fair values at the date of acquisition. The \$31.7 excess of the purchase price and transaction costs over the fair value of net assets acquired was recorded as goodwill and had been amortized on a straight-line basis over a period of 25 years through December 31, 2001. The fair value of assets acquired and liabilities assumed is as follows:

Current assets	\$ 22.4
Property, plant and equipment	11.1
Other assets	3.4
Goodwill	31.7
Liabilities	(17.4)
Net assets	\$ 51.2

The operating results of B&B are included in the accompanying consolidated statements of income beginning May 1, 2000. The following unaudited pro forma results of operations of the Company assumes the acquisition occurred as of January 1, 2000. These pro forma results do not purport to be indicative of the results of operations, which may result in the future.

<i>Year ended December 31,</i>	2000
Sales	\$ 661.6
Net income	\$ 78.5
Basic earnings per share	\$ 1.76
Diluted earnings per share	\$ 1.75

NOTE 4: DIVESTITURE

On March 9, 2000, the Company sold 92.5% of its International Imaging Materials, Inc. ("IIMAK") subsidiary for \$127.5, which included \$120.0 in cash and \$7.5 of IIMAK preferred stock.

NOTE 5: INVENTORIES

The components of inventories are as follows:

<i>At December 31,</i>	2002	2001
Raw materials	\$ 34.7	\$ 36.6
Work-in-process	8.1	8.2
Finished goods	52.4	46.6
	95.2	91.4
Less allowance for obsolescence	(11.4)	(13.7)
	\$ 83.8	\$ 77.7

If all inventories were reported on a FIFO basis, inventories would be approximately \$2.1 and \$2.0 higher at December 31, 2002 and 2001, respectively.

NOTE 6: PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment is as follows:

<i>At December 31,</i>	2002	2001
Machinery and equipment	\$ 221.8	\$ 190.6
Buildings and building improvements	56.3	52.5
Land	5.3	4.3
	283.4	247.4
Accumulated depreciation	(128.5)	(102.2)
	\$ 154.9	\$ 145.2

	<i>Years</i>
Estimated useful lives:	
Buildings	10 to 50
Building and leasehold improvements	2 to 20
Machinery and equipment	2 to 15

Depreciation expense was \$29.3 in 2002, \$26.8 in 2001 and \$26.2 in 2000.

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A summary of accounts payable and accrued liabilities is as follows:

<i>At December 31,</i>	2002	2001
Accounts payable	\$ 44.1	\$ 36.3
Accrued payroll costs	17.1	17.7
Other accrued liabilities	33.3	36.0
	\$ 94.5	\$ 90.0

NOTE 8: LONG-TERM DEBT

A summary of long-term debt is as follows:

<i>At December 31,</i>	2002	2001
6.74% Senior Notes	\$ 150.0	\$ 150.0
Economic Development Revenue Bonds due 2011 and 2019	13.0	13.0
Revolver	—	0.6
Other	1.6	2.4
	164.6	166.0
Less current maturities	0.1	0.1
	\$ 164.5	\$ 165.9

Maturities of long-term debt are as follows:

<i>Years ending December 31,</i>	
2003	\$ 0.1
2004	0.4
2005	0.1
2006	0.1
2007	0.1
Thereafter	163.8
	\$ 164.6

On August 11, 1998, the Company entered into unsecured ten-year, \$150 Senior Note agreements (the "Senior Notes") with institutional lenders, primarily insurance companies. The Senior Notes bear interest at 6.74%, payable semi-annually. The proceeds were used to repay the term loan and a portion of the indebtedness outstanding under the Company's revolving credit facility before it was amended and restated. The Senior Notes contain covenants requiring the Company, among other things, to maintain a minimum net worth. The Company was in compliance with all covenants as of December 31, 2002 and 2001.

Economic Development Revenue Bond financed facilities have been accounted for as plant and equipment, and the related bonds are recorded as long-term debt. The variable rate bonds for the years ended December 31, 2002 and 2001 had weighted average interest rates of 1.52% and 2.78%, respectively.

In September 2002, the Company entered into a three-year, \$150 revolving credit agreement with a group of five domestic and international banks. The agreement amended and restated the Company's previous revolving credit facility, which would have expired on August 11, 2003. Under the credit agreement, the Company pays a facility fee determined by reference to the debt to EBITDA ratio. The applicable percentage for the facility fee at December 31, 2002 was 0.275%. Borrowings under the credit agreement bear interest at rates referenced to the London Interbank Offered Rate with applicable margins varying in accordance with the Company's attainment of specified financial thresholds or, at the Company's option, rates competitively bid among the participating banks or the Prime Rate, as defined (4.25% and 4.75% at December 31, 2002 and 2001, respectively), and are guaranteed by certain domestic subsidiaries of the Company.

The credit facility, among other things, limits the Company's ability to change the nature of its businesses, incur indebtedness, create liens, sell assets, engage in mergers and make investments in certain subsidiaries. The credit facility contains certain customary events of default, which generally give the banks the right to accelerate payments of outstanding debt. Under the credit facility, these events include: failure to maintain required financial covenant ratios, as described below; failure to make a payment of principal, interest or fees within two days of its due date; default, beyond any applicable grace period, on any aggregate indebtedness of the Company exceeding \$0.5; judgment or order involving a liability in excess of \$0.5; and occurrence of certain events constituting a change of control of the Company. The Company does not anticipate the occurrence of any of these default events.

Under the most restrictive debt covenants as defined in the Company's revolving credit agreement, the Company must maintain at all times an excess of consolidated total assets over total liabilities of not less than the sum of \$274 plus 35% of consolidated net income for the period after July 1, 2002 plus 100% of the net cash proceeds received by the Company from the sale or issuance of its capital stock on and after July 1, 2002. The Company's maximum allowable debt to EBITDA ratio, as defined, is 3.0 to 1 and minimum allowable fixed charge coverage ratio, as defined, is 1.5 to 1.

As of December 31, 2002, the Company was in compliance with the financial covenants of its financing arrangements. The Company discloses the details of the compliance calculation to its banks and certain other lending institutions in a timely manner.

Average borrowings under the credit facility during 2002 and 2001 were \$9.8 and \$0.1, at an average interest rate of 2.23% and 2.20%, respectively. The borrowings outstanding under the credit facility at December 31, 2002 and 2001 were \$0.0 and \$0.6, respectively.

Interest expense was \$11.6 in 2002, \$11.5 in 2001 and \$12.0 in 2000.

NOTE 9: INCOME TAXES

The components of the provision for income taxes are as follows:

<i>At December 31,</i>	2002	2001	2000
Federal			
Current	\$ (0.1)	\$ (3.9)	\$ 11.6
Deferred	(3.3)	(1.2)	1.1
Foreign			
Current	10.9	9.6	9.9
Deferred	1.4	(0.8)	0.3
State	0.4	0.2	0.5
	\$ 9.3	\$ 3.9	\$ 23.4

The deferred tax assets and liabilities are as follows:

<i>At December 31,</i>	2002	2001	2000
Deferred tax assets:			
Tax credits and			
tax loss carryforwards	\$ 9.0	\$ 5.8	\$ 2.1
Other accrued liabilities			
and allowances	8.4	3.7	8.1
Deferred compensation	4.5	3.6	0.3
Other	—	—	1.9
Total gross deferred tax assets	21.9	13.1	12.4
Valuation allowance	(6.4)	(5.8)	(0.4)
Net deferred tax assets	15.5	7.3	12.0
Deferred tax liabilities:			
Depreciation and other			
property basis differences	(10.9)	(9.4)	(11.9)
Other	(6.2)	(1.4)	(5.3)
Net deferred tax liabilities	\$ (1.6)	\$ (3.5)	\$ (5.2)

A valuation allowance is established for those deferred tax assets to the extent that the Company believes that recovery is not more than likely. As of December 31, 2002, a valuation allowance of \$6.4 exists for certain tax credit and tax loss carryforwards.

The federal statutory income tax rate reconciles to the effective income tax rate as follows:

Years ended December 31,	2002	2001	2000
Federal statutory tax rate	35.0%	35.0%	35.0%
State income tax, net of			
federal income tax benefit	0.5	0.7	0.3
Foreign taxes			
less than federal rate	(14.2)	(19.0)	(7.3)
Book vs. tax basis difference			
on sale of subsidiary	—	—	(7.7)
Tax credits utilized	—	(5.0)	—
Nondeductible goodwill			
amortization	—	6.2	1.4
Reserves no longer required	(2.4)	—	—
All other, net	(0.1)	(0.7)	1.5
	18.8%	17.2%	23.2%

During 2000, the Company sold 92.5% of its interest in IIMAK and recorded a tax provision on the sale that reflected a higher tax basis than book basis. During 2001, the Company settled a dispute with IIMAK regarding alternative minimum tax credits carried forward and used by the Company in 1999 and 2000 in the amount of \$3.5. The Company paid IIMAK \$2.4 and retained \$1.1 in final settlement of the dispute. During 2002, the Company reviewed the status of tax reserves and reduced the 2002 provision for income taxes by the amount determined to be in excess of requirements.

A provision has not been provided on undistributed foreign earnings of \$174.5 at December 31, 2002, as those earnings will be permanently reinvested for expansion of the foreign operations. At December 31, 2002, the estimated US tax liability on the undistributed earnings was \$36.2. Total foreign-based pre-tax income was approximately \$60, \$43 and \$46 for 2002, 2001, and 2000, respectively.

NOTE 10: SEGMENT INFORMATION

The Company develops, manufactures and markets bar code systems, apparel systems, fabric labels, graphic tags, and identification and pricing solutions products to customers primarily in the retail and apparel manufacturing industries. In addition, the sales of the Company's products usually result in the ongoing sale of supplies, replacement parts and services. The Company's printers and labelers are sold worldwide through a direct sales force, through non-exclusive manufacturers' representatives in the US and through international and export distributors and commission agents in Europe, Africa, Central and South America, and the Asia Pacific region.

The Company's operations have been classified into three geographic segments consisting of North, Central and South America ("Americas"), Europe, the Middle East and Africa ("EMEA"), and the Asia Pacific region ("Asia Pacific"). Each of the three geographic segments develops, manufactures and markets the Company's products and services. The results from the three geographic segments are regularly reviewed by the Company's Chief Executive Officer and Chief Financial Officer to make decisions about resources to be allocated to each geographic segment and assess performance of each segment. Information regarding the operations of the Company in different geographic segments

is set forth below. The accounting policies of the geographic segments are the same as those described in Note 2: Summary of Significant Accounting Policies.

Years ended December 31,	2002	2001	2000
Sales to unaffiliated customers:			
Americas	\$ 332.4	\$ 322.2	\$ 365.0
EMEA	176.6	162.8	162.3
Asia Pacific	158.8	125.6	118.1
Total	\$ 667.8	\$ 610.6	\$ 645.4
Intersegment sales:			
Americas	\$ 64.1	\$ 49.7	\$ 53.2
EMEA	41.5	30.6	36.5
Asia Pacific	10.2	6.9	2.3
Eliminations	(115.8)	(87.2)	(92.0)
Total	\$ —	\$ —	\$ —
Operating income:			
Americas	\$ 27.8	\$ 33.5	\$ 41.1
EMEA	14.2	10.2	12.2
Asia Pacific	36.4	29.5	28.4
Total	78.4	73.2	81.7
Corporate expenses	(17.6)	(14.0)	(13.7)
Amortization of intangibles	(0.3)	(6.0)	(5.7)
Post-employment benefit costs	—	(7.3)	—
Integration/restructuring and			
other costs	—	(13.3)	(1.9)
Total	\$ 60.5	\$ 32.6	\$ 60.4
Depreciation and amortization:			
Americas	\$ 16.2	\$ 18.1	\$ 20.0
EMEA	8.0	9.1	8.0
Asia Pacific	3.9	4.5	3.2
Total	28.1	31.7	31.2
Corporate	1.5	1.1	0.7
Total	\$ 29.6	\$ 32.8	\$ 31.9
Capital expenditures:			
Americas	\$ 8.6	\$ 7.1	\$ 12.7
EMEA	10.3	9.5	8.6
Asia Pacific	5.3	3.7	8.7
Total	24.2	20.3	30.0
Corporate	1.3	3.9	2.2
Total	\$ 25.5	\$ 24.2	\$ 32.2
At December 31,			
Long-lived assets:			
Americas	\$ 193.9	\$ 172.2	
EMEA	115.2	105.4	
Asia Pacific	37.2	43.4	
Total	346.3	321.0	
Corporate	6.3	5.9	
Total	\$ 352.6	\$ 326.9	
Total assets:			
Americas	\$ 292.1	\$ 226.4	
EMEA	207.6	191.4	
Asia Pacific	91.1	87.4	
Total	590.8	505.2	
Corporate	48.8	78.6	
Total	\$ 639.6	\$ 583.8	

No one customer accounted for more than 10% of the Company's revenues or accounts receivable in 2002, 2001 or 2000.

NOTE 11: SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes is as follows:

Years ended December 31,	2002	2001	2000
Interest	\$ 11.0	\$ 9.8	\$ 9.3
Income taxes	\$ 11.7	\$ 15.7	\$ 7.7

NOTE 12: SHAREHOLDERS' EQUITY

The Company has various stock-based compensation plans, including two stock option plans, a long-term incentive plan, and an employee stock purchase plan.

The 1990 Employee Stock Option Plan (the "1990 Plan"), the 1997 Incentive Stock Option Plan (the "1997 Plan") and the 2000 Long-Term Performance and Incentive Plan (the "2000 Plan") provide for grants of incentive stock options, non-qualified stock options and stock appreciation rights, which may be granted in tandem with non-qualified stock options. The 2000 Plan also permits awards of restricted stock and bonus stock and other similar stock-based compensation arrangements. In addition, the shares previously authorized and available for issuance under the 1997 Plan became available for issuance under the 2000 Plan upon approval of the 2000 Plan by the Company's shareholders in May 2000. The option price per share of incentive stock options cannot be less than 100% of the market value at the date of grant. The option price per share of non-qualified stock options and stock appreciation rights is determined by the Board of Directors at its sole discretion.

As of December 31, 2002, 3,838,000 shares of common stock were reserved for issuance upon the exercise of options granted to key employees and directors under the 1997 Plan and the 2000 Plan, and 508,000 shares of common stock were reserved for future grants under the 2000 Plan. In addition, under the 1990 Plan, 686,000 shares of common stock were reserved for issuance upon the exercise of options granted to key employees and directors.

Generally, options vest over four years and are exercisable for ten years.

A summary of outstanding stock options is as follows:

	Number of Shares (in millions)	Weighted Average Exercise Price
2000		
Outstanding at beginning of year	3.6	\$ 11.22
Granted	0.9	\$ 8.92
Exercised	(0.2)	\$ 5.21
Canceled/forfeited	(0.4)	\$ 12.94
Outstanding at end of year	3.9	\$ 10.81
2001		
Granted	0.9	\$ 10.74
Exercised	(0.4)	\$ 8.10
Canceled/forfeited	(0.1)	\$ 10.34
Outstanding at end of year	4.3	\$ 11.04
2002		
Granted	1.1	\$ 16.04
Exercised	(0.7)	\$ 10.85
Canceled/forfeited	(0.2)	\$ 12.19
Outstanding at end of year	4.5	\$ 12.19

The weighted average fair value per option granted in 2002, 2001 and 2000 was \$7.38, \$5.03 and \$4.53, respectively.

The following table summarizes information about stock options outstanding as of December 31, 2002:

Range of Exercise Prices	Options Outstanding (In millions)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Options outstanding			
\$ 1.00 – \$ 6.00	0.1	\$ 4.74	2.4
\$ 6.01 – \$ 10.75	2.0	\$ 9.37	6.6
\$ 10.76 – \$ 17.92	2.4	\$ 15.03	6.4
	4.5	\$ 12.19	6.3
Options exercisable			
\$ 1.00 – \$ 6.00	0.1	\$ 5.33	
\$ 6.01 – \$ 10.75	1.1	\$ 8.99	
\$ 10.76 – \$ 17.92	1.3	\$ 14.61	
	2.5	\$ 11.69	

SFAS No. 123 provides for a fair-value based method of accounting for employee options and measures compensation expense using an option valuation model that takes into account, as of the grant date, the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate for the expected term of the option. The Company has elected to continue accounting for employee stock-based compensation under APB No. 25. Under APB No. 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The compensation expense under SFAS No. 123 for the stock-based compensation plans would have been \$4.0, \$2.3 and \$2.0 in 2002, 2001 and 2000, respectively. The following table presents pro forma net income and earnings per share had the Company elected to adopt SFAS No. 123:

Years ended December 31,	2002	2001	2000
Net income:			
As reported	\$ 40.3	\$ 18.8	\$ 77.5
Pro forma	\$ 36.3	\$ 16.5	\$ 75.5
Basic earnings per share:			
As reported	\$ 1.02	\$ 0.45	\$ 1.74
Pro forma	\$ 0.92	\$ 0.40	\$ 1.70
Diluted earnings per share:			
As reported	\$ 1.00	\$ 0.44	\$ 1.73
Pro forma	\$ 0.90	\$ 0.39	\$ 1.69

These pro forma amounts may not be representative of future disclosures since the estimated fair value of stock options is amortized to expense over the vesting period, and additional options may be granted in future years.

The estimated fair value of each option granted is calculated using the Black-Scholes option-pricing model. The following summarizes the assumptions used in the model:

	2002	2001	2000
Risk-free interest rate	3.0%	4.4%	5.5%
Expected years until exercise	6.0	6.0	7.0
Expected stock volatility	41.5%	41.6%	37.7%
Dividend yield	0.0%	0.0%	0.0%

EMPLOYEE STOCK PURCHASE PLAN

The Company maintains an employee stock purchase plan, which allows employees to purchase a certain amount of stock at a discount of 20% to the market price. The Company may sell up to 1,819,000 shares under this plan and, as of December 31, 2002, 712,000 shares were available for future purchases. The total number of shares and the average fair value of shares issued under this plan in 2002, 2001 and 2000 were 101,000 and \$15.66 in 2002, 123,000 and \$12.06 in 2001, and 151,000 and \$9.94 in 2000, respectively. The Company recognized total compensation expense for stock-based compensation of \$0.3 for 2002, 2001 and 2000, respectively.

WARRANTS

The warrants outstanding are as follows:

<i>At December 31,</i>	2002	2001
Warrants outstanding and exercisable at \$14.00	—	1,250,000
Warrants outstanding and exercisable at \$17.50	—	250,000
Total	—	1,500,000

In February 2002, 1,250,000 warrants were exercised. In a cashless transaction, the Company issued 162,000 of its common shares in exchange for the excess value of the warrants. During 2002, 250,000 warrants exercisable at \$17.50 expired.

STOCK REPURCHASE PLAN

The Company has a stock repurchase plan with an authorization to use up to \$150 in total for the repurchase of its shares. The shares may be purchased from time to time at prevailing prices in the open-market, by block purchases, or in privately-negotiated transactions. The Company repurchased 285,000 shares for an aggregate price of \$3.8, or \$13.38 per share, in 2002, 3,238,000 shares for an aggregate price of \$33.1, or \$10.22 per share, in 2001 and 5,035,000 shares for an aggregate price of \$51.0, or \$10.14 per share, in 2000. Since the inception of the stock repurchase program, the Company repurchased 11,824,000 of its shares for an aggregate price of \$116.9, or \$9.89 per share. The Company immediately retired the repurchased shares. As of December 31, 2002, the Company had \$33.1 available under its \$150 stock repurchase program authorization. The Company may continue to repurchase its shares under the existing authorization, depending on market conditions.

NOTE 13: EARNINGS PER COMMON SHARE

The reconciliation of basic and diluted weighted average common shares outstanding is as follows:

<i>Years ended December 31, (in millions)</i>	2002	2001	2000
Weighted average common shares (basic)	39.4	41.8	44.5
Options and warrants	0.9	0.6	0.3
Adjusted weighted average common shares (diluted)	40.3	42.4	44.8

Options and warrants to purchase 847,000, 2,949,000, and 3,286,000 shares of common stock outstanding at December 31, 2002, 2001 and 2000, respectively, were not included in the

computation of diluted earnings per common share because the effect of their inclusion would be antidilutive.

NOTE 14: EMPLOYEE SAVINGS PLANS

The Company maintains a voluntary employee savings plan adopted pursuant to Section 401(k) of the Internal Revenue Code. The Company's contribution under the plan was \$2.9, \$2.4, and \$2.6 in 2002, 2001 and 2000, respectively.

NOTE 15: POST-EMPLOYMENT BENEFIT COSTS

During 2001, certain key executives of the Company signed employment agreements with the Company under which the Company is obligated to provide post-employment benefits as specified in the agreements. In connection with these agreements, the Company recorded \$1.5 and \$7.3 of post-employment benefit costs in 2002 and 2001, respectively. In 2001, the post-employment benefits costs pertained to the one-time, prior period service costs, which were incurred as a result of the employment agreements. The post-employment benefit costs were included in selling, general and administrative expenses in the accompanying consolidated statements of income for the years ended December 31, 2002 and 2001.

NOTE 16: COMMITMENTS AND CONTINGENT LIABILITIES

Total rental expense for all operating leases amounted to \$8.1 in 2002, \$6.9 in 2001 and \$6.2 in 2000.

Minimum rental commitments for all non-cancelable operating leases are as follows:

<i>Years ending December 31,</i>	
2003	\$ 7.2
2004	5.5
2005	4.1
2006	3.0
2007	2.6
Thereafter	11.6
	\$ 34.0

The Company accrues severance expense for employees of its Italian subsidiaries, as required by Italian statute, and these amounts are included in other liabilities in the accompanying consolidated balance sheets.

The Company has been named a potentially responsible party relating to contamination that occurred at certain super-fund sites. Management does not expect the ultimate outcome of settling these contingencies to be material.

In the ordinary course of business, the Company and its subsidiaries are involved in certain disputes and litigation, none of which will, in the opinion of management, have a material adverse effect on the Company's financial position or results of operations.

NOTE 17: INTEGRATION/RESTRUCTURING AND OTHER COSTS

During 2000, the Company recorded \$1.9 (pre-tax) of integration/restructuring and other costs. Of this amount, \$0.9 pertained to the integration of certain facilities and severance for six selling and administrative personnel and 42 manufacturing positions in EMEA. The remaining \$1.0 pertained to severance for nine selling and administrative personnel and 30 manufacturing positions and other costs associated with the discontinuance of a supplies manufacturing operation in Canada. Of this amount, \$0.7 of severance was unpaid at December 31, 2000.

	<i>Beginning Balance January 1, 2000</i>	<i>Expenses</i>	<i>Payments</i>	<i>Ending Balance December 31, 2000</i>
Severance	\$ —	\$ 1.7	\$ 1.0	\$ 0.7
Other costs	—	0.2	0.2	—
	\$ —	\$ 1.9	\$ 1.2	\$ 0.7

During 2001, the Company implemented specific initiatives to enhance revenue growth, increase capital efficiency and lower operating costs. As a result, the Company recorded \$13.3 (pre-tax) of integration/restructuring and other costs. Of this amount, \$11.9 pertained to: (1) integration of certain manufacturing facilities and the consolidation of production sites as the Company closed and sold two manufacturing locations in North America and rationalized operations in the UK, Italy and Spain; and (2) strategic unification of the sales and marketing organization and a global organizational reshaping, which resulted in severance for 125 managerial and administrative personnel and 350 manufacturing positions in the US, Canada, Hong Kong, the UK, Italy and Turkey. In addition, the Company disposed of certain property, plant and equipment in connection with its strategic initiatives and recorded a net write-off of \$1.4.

	<i>Beginning Balance January 1, 2001</i>	<i>Expenses</i>	<i>Payments</i>	<i>Ending Balance December 31, 2001</i>
Severance	\$ 0.7	\$ 6.9	\$ 4.3	\$ 3.3
Other costs	—	5.0	5.0	—
	\$ 0.7	\$ 11.9	\$ 9.3	\$ 3.3

Of the total unpaid severance of \$3.3 at December 31, 2001, the Company paid \$3.1 during 2002. The remaining \$0.2 balance at December 31, 2002 is expected to be paid during 2003.

NOTE 18: RELATED PARTY TRANSACTIONS

During 2001, the Company entered into a stock repurchase agreement with an officer (the "shareholder"), who is also a director and principal shareholder of the Company, under which the Company may be required to purchase from the shareholder up to a certain number of its shares each year. The maximum number of shares that the Company may be required to purchase in any year is determined on the basis of a formula specified in the agreement. The purchase price of the shares is determined by reference to the closing market price of the Company's common stock for the seven trading days immediately preceding the date of sale. The agreement terminates in July 2013. The Company repurchased from the shareholder 399,000 of its shares for \$6.4, or \$15.96 per share in 2002 and 400,000 of its shares for \$5.4, or \$13.40 per share in 2001. The Company immediately retired the shares it purchased from the shareholder. The Company's obligations under the stock repurchase agreement are in addition to its authorization under the stock repurchase plan.

The Company leased a manufacturing facility in Sayre, Pennsylvania, owned beneficially by its principal shareholders, at an annual rental of \$0.1 through 2002.

NOTE 19: CONDENSED QUARTERLY FINANCIAL DATA (UNAUDITED)

	<i>First Quarter</i>	<i>Second Quarter</i>	<i>Third Quarter</i>	<i>Fourth Quarter</i>
2002				
Sales	\$ 152.7	\$ 173.1	\$ 170.1	\$ 171.9
Operating income	12.6	19.9	15.4	12.6
Net income	7.5	13.1	10.2	9.5
Basic earnings per share	0.19	0.33	0.26	0.24
Diluted earnings per share	0.19	0.32	0.25	0.24
Market price per share:				
High	\$ 17.55	\$ 18.05	\$ 17.15	\$ 15.43
Low	14.03	15.70	12.20	12.35
2001				
Sales	\$ 155.3	\$ 157.1	\$ 138.8	\$ 159.4
Operating income ^{(a)(b)}	12.4	11.7	7.2	1.3
Net income ^{(a)(b)}	7.2	6.8	3.9	0.9
Basic earnings per share ^{(a)(b)}	0.17	0.16	0.09	0.02
Diluted earnings per share ^{(a)(b)}	0.17	0.16	0.09	0.02
Market price per share:				
High	\$ 12.50	\$ 14.40	\$ 14.30	\$ 14.24
Low	9.44	10.35	10.80	10.20

^(a) Fourth quarter 2001 includes \$7.3 (\$4.7 after taxes) of post-employment benefit costs.

^(b) Second, third and fourth quarter 2001 include \$6.6 (\$4.3 after taxes), \$2.0 (\$1.3 after taxes) and \$4.7 (\$3.1 after taxes), respectively, of integration/restructuring and other costs.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

To the Shareholders of Paxar Corporation:

The consolidated financial statements and accompanying information were prepared by management, who accepts full responsibility for their integrity and objectivity. The statements were prepared in conformity with generally accepted accounting principles in the United States and, as such, include amounts that are based on management's best estimates and judgments.

Management is further responsible for maintaining a system of internal accounting control designed to provide reliable financial information for the preparation of financial statements, to safeguard assets against loss or unauthorized use and to ensure that transactions are executed consistent with Company policies and procedures. Management believes that existing internal accounting control systems are achieving these objectives and provide reasonable assurance concerning the accuracy of the financial statements.

Oversight of management's financial reporting and internal accounting control responsibilities is exercised by the Board of Directors, through its Audit Committee, which consists solely of

outside directors. The Committee meets periodically with financial management, internal auditors and the independent accountants to obtain reasonable assurance that each is meeting its responsibilities and to discuss matters concerning auditing, internal accounting control and financial reporting. The independent accountants and the Company's internal audit department have free access to meet with the Audit Committee without management's presence.



Paul J. Griswold
President and Chief Executive Officer



Jack R. Plaxe
Senior Vice President and Chief Financial Officer

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP. These independent accountants have ceased operations, and have not reissued their report in conjunction with this Annual Report. Their report is included in the Annual Report as permitted by Rule 2-02(e) of Regulation S-X of the Securities and Exchange Commission. As described in Note 2, the 2001 and 2000 consolidated financial statements have been revised to separately reflect amounts that represent goodwill and to include transitional disclosures required by Statement of Financial Accounting Standards No. (SFAS) 142, "Goodwill and Other Intangible Assets," which was adopted by the Company as of January 1, 2002. The Arthur Andersen LLP report does not extend to these changes to the 2001 and 2000 consolidated financial statements. The adjustments to the 2001 and 2000 consolidated financial statements were reported on by PricewaterhouseCoopers LLP as stated in their report appearing herein.

COPY OF PREVIOUSLY ISSUED REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of Paxar Corporation:

We have audited the accompanying consolidated balance sheets of Paxar Corporation (a New York corporation) and subsidiaries as of December 31, 2001 and 2000*, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2001*. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial

statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paxar Corporation and subsidiaries as of December 31, 2001 and 2000*, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001*, in conformity with accounting principles generally accepted in the United States.



Stamford, Connecticut
January 29, 2002

*The consolidated balance sheet at December 31, 2000 and the consolidated statements of income, shareholders' equity and cash flows for the year ended December 31, 1999 are not required to be presented in the 2002 Annual Report.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of Paxar Corporation:

In our opinion, the accompanying consolidated balance sheet as of December 31, 2002 and the related consolidated statements of income, shareholders' equity and comprehensive income and cash flows for the year then ended present fairly, in all material respects, the financial position of Paxar Corporation and its subsidiaries (the "Company") as of December 31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion. The financial statements of the Company as of December 31, 2001 and for each of the two years in the period ended December 31, 2001, prior to the revisions discussed in Note 2 to the consolidated financial statements, were audited by other independent accountants who have ceased operations. Those independent accountants expressed an unqualified opinion on those financial statements in their report dated January 29, 2002.

As disclosed in Note 2, the Company changed the manner in which it accounts for goodwill and other intangible assets as a result of the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002.

As discussed above, the financial statements of Paxar Corporation as of December 31, 2001, and for each of the two years in the period ended December 31, 2001, were audited by other independent accountants who have ceased operations. As described in Note 2, these financial statements have been revised to separately reflect amounts that represent goodwill, and to include the transitional disclosures required by SFAS No. 142. We audited the adjustments described in Note 2 that were applied to revise the 2001 and 2000 financial statements. We also audited the transitional disclosures described in Note 2. In our opinion, the revisions and transitional disclosures for 2001 and 2000 described in Note 2 are appropriate and the adjustments described in Note 2 are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 or 2000 financial statements of the Company other than with respect to such adjustments and transitional disclosures and, accordingly, we do not express an opinion or any other form of assurance on the 2001 or 2000 financial statements taken as a whole.



New York, New York
March 5, 2003

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- ² Executive Development and Compensation
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PAXAR CORPORATION 105 CORPORATE PARK
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Counsel
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NEW YORK, NY 10158

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Larry M. Segall
VICE PRESIDENT AND CONTROLLER

Robert S. Stone
VICE PRESIDENT, GENERAL COUNSEL AND
SECRETARY

DIVISION EXECUTIVES

Paul Chu
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James Wrigley
PRESIDENT, EUROPE

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INQUIRIES RELATING TO SHAREHOLDER RECORDS,
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DIRECTED TO: MELLON INVESTOR SERVICES, LLC
OVERPECK CENTRE
85 CHALLENGER ROADRID
GEFIELD PARK, NJ 07660
TEL: 800.548.4857
WWW.MELLON-INVESTOR.COM

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Paxar Corporation celebrated its 10th anniversary of listing on the New York Stock Exchange on November 12, 2002. In honor of the occasion, Arthur Hershaft, Chairman, and Paul J. Griswold, President and CEO, rang The Closing Bell™.

From left to right:
Victor Hershaft, David L. Kolb, Robert M. Powers, Jack R. Plaxe, Leo Benatar, Richard A. Grasso (Chairman & CEO, NYSE), Paul J. Griswold, Arthur Hershaft, Thomas R. Loemker, Janet Hershaft, Hughette I. Crumpler, Joyce F. Brown, Robert S. Stone, Jack Becker, James C. McGroddy



A copy of Paxar's 2002 Form 10-K report may be obtained through Paxar's Web site www.paxar.com, or by contacting the Investor Relations Department at:

PAXAR CORPORATION
Robert M. Powers
Vice President
Investor Relations
105 Corporate Park Drive
White Plains, NY 10604
Tel: 914.697.6800
Fax: 914.697.6856
E-mail: investorel@paxar.com

CAUTIONARY STATEMENT CONCERNING FORWARD- LOOKING STATEMENTS

The Paxar Corporation 2002 Annual Report contains various forward-looking statements, which by their nature involve risk and uncertainty. For a fuller description of the risks and uncertainties that may cause actual results to be different from our goals, please see the section titled "Cautionary Statement Pursuant to 'Safe Harbor' Provisions of the Private Securities Litigation Reform Act of 1995" found in the Paxar Corporation Annual Report on Form 10-K. Forward-looking statements can be indicated in a variety of ways, including the use of words such as "expect," "committed," "anticipate," "targeted" and "seek."

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