

ckp
02

INNOVATION **CONNECTIVITY** INTELLIGENCE

[IDENTIFICATION & SHRINK MANAGEMENT SOLUTIONS]

Checkpoint[®]



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02

INNOVATION **CONNECTIVITY** INTELLIGENCE

Checkpoint Systems gives retailers, consumer product and apparel manufacturers, and distributors a single, global source of integrated solutions for branding, tracking and security. Checkpoint's radio frequency, labeling and security technologies converge in a comprehensive line of products designed to track and identify inventory accurately and efficiently, to control shrinkage losses, protect assets and, ultimately, improve profitability.

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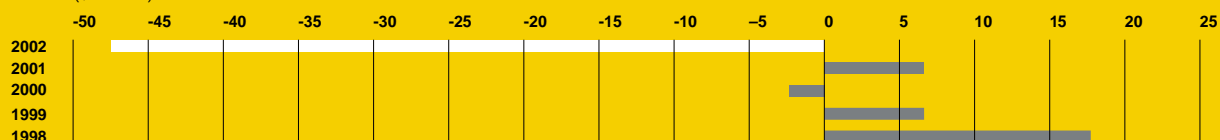
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Net Revenues

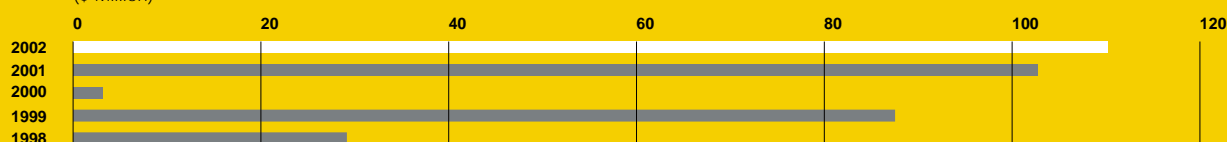
(\$ Million)

**Net Earnings**

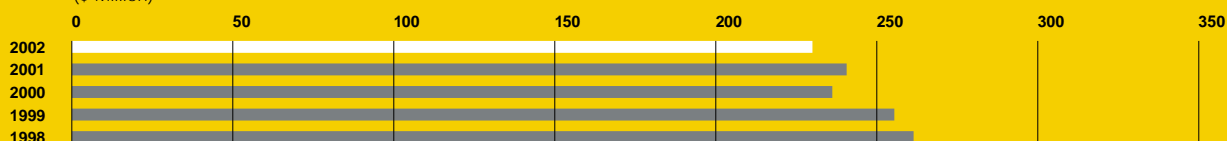
(\$ Million)

**Cash Flow from Operating Activities**

(\$ Million)

**Shareholders' Equity**

(\$ Million)



(Thousands, except per share amounts)

| | 2002 | 2001 | 2000 | 1999 | 1998 |
|--|----------------------------|-------------------------|---------------------------|-------------------------|-------------------------|
| Operating Results | | | | | |
| Net Revenues | \$ 639,486 | \$ 658,535 | \$ 690,811 | \$ 373,062 ⁱ | \$ 364,572 ⁱ |
| Gross Profit | \$ 262,599 ^a | \$ 256,284 ^d | \$ 272,848 ^f | \$ 146,773 | \$ 147,097 |
| Net Interest Expense | \$ 13,280 | \$ 19,099 | \$ 19,836 | \$ 4,297 | \$ 4,822 |
| Income Taxes | \$ 12,020 | \$ 6,857 | \$ 3,115 | \$ 2,655 ^j | \$ 8,509 |
| Net (Loss)/Earnings | \$ (47,282) ^{b,c} | \$ 6,635 ^e | \$ (2,766) ^{g,h} | \$ 6,666 ^k | \$ 17,685 ^l |
| Diluted (Loss)/Earnings per Share | \$ (1.10) | \$.21 | \$ (.09) | \$.22 | \$.53 |
| Cash Flow from Operating Activities | \$ 110,152 | \$ 102,736 | \$ 3,172 | \$ 87,536 | \$ 29,157 |
| Financial Position | | | | | |
| Cash and Investments | \$ 54,670 | \$ 43,698 | \$ 28,121 | \$ 87,718 | \$ 35,934 |
| Working Capital | \$ 111,187 | \$ 129,963 | \$ 157,089 | \$ 175,430 | \$ 186,261 |
| Current Assets | \$ 297,866 | \$ 313,573 | \$ 371,155 | \$ 412,501 | \$ 264,849 |
| Total Debt | \$ 209,325 | \$ 293,511 | \$ 385,081 | \$ 441,162 | \$ 176,429 |
| Shareholders' Equity | \$ 225,246 | \$ 240,263 | \$ 237,679 | \$ 255,795 | \$ 261,936 |
| Total Assets | \$ 678,382 | \$ 752,653 | \$ 867,990 | \$ 944,873 | \$ 507,663 |

a Includes a \$1.8 million pre-tax restructuring charge, a \$0.5 million pre-tax asset impairment, and a \$1.7 million pre-tax restructuring charge reversal as a result of a change in estimates.

b Includes a \$1.5 million restructuring charge (net of tax), a \$0.3 million asset impairment (net of tax), and a restructuring charge reversal, as a result of changes in estimates, of \$1.7 million (net of tax).

c Excludes goodwill amortization. Includes a non-cash reduction in net earnings of \$72.9 million resulting from the adoption of Statement of Financial Accounting Standards No. 142, (SFAS 142) *Goodwill and Other Intangible Assets*.

d Includes a \$4.3 million pre-tax restructuring charge and a \$7.1 million pre-tax asset impairment.

e Includes a \$8.2 million restructuring charge (net of tax), a \$5.3 million asset impairment (net of tax), and a restructuring charge reversal of \$0.1 million (net of tax).

f Includes a \$0.9 million pre-tax restructuring charge, a \$0.9 million pre-tax integration charge, a \$7.2 million pre-tax asset impairment, and a pre-tax inventory write-off of \$3.7 million.

g Includes a \$1.4 million restructuring charge (net of tax), a \$6.5 million integration charge (net of tax), a \$4.5 million asset impairment (net of tax), a \$2.3 million inventory write-off (net of tax), and a customer-based receivables write-off of \$3.2 million (net of tax).

h Includes a non-cash reduction in net earnings of \$5.0 million resulting from the implementation of SEC Staff Accounting Bulletin (SAB) No. 101 *Revenue Recognition in Financial Statements*.

i Amounts have been restated to conform with Emerging Issue Task Force (EITF) 00-10, *Accounting for Shipping and Handling Fees and Costs*.

j Includes income tax benefit of \$0.3 million on extraordinary item.

k Includes a restructuring charge of \$7.7 million (net of tax) and an extraordinary item of \$0.6 million (net of tax).

l Includes a restructuring charge reversal of \$0.4 million (net of tax) as a result of changes in estimates.



George Off
Chairman and
Chief Executive Officer

John E. Davies, Jr.
Executive Vice President,
Sales and Marketing

Per Levin
Vice President and
General Manager, Europe

W. Craig Burns
Executive Vice President,
Chief Financial Officer and Treasurer

CHECKPOINT'S PERFORMANCE IN THE FACE OF GLOBAL ECONOMIC UNCERTAINTY AND A SOFT RETAIL MARKET REFLECTS THE STRENGTH OF OUR UNDERLYING BUSINESS FUNDAMENTALS.

In 2002, we improved gross margins, generated \$110 million in cash flow from operations, and exceeded our debt-reduction goals, paying down net \$104 million in debt. Although revenues of \$639.5 million were down slightly from \$658.5 million the previous year, our cost management success and strong cash flow give us the flexibility to invest in order to grow.

Key 2002 highlights include the development of our Liberty™ digital radio-frequency electronic article surveillance (RF EAS) product line and our Check-Net® e-commerce infrastructure. Our source tagging program continued to gain momentum around the world, growing 21 percent last year. Our service bureau business grew 17 percent. We sold nearly \$5 million in integrated EAS labels. Our closed-circuit television (CCTV), fire and intrusion line saw a second consecutive year of double-digit growth in sales and profits. Sales of our ground-breaking radio-frequency identification (RFID)-based Intelligent Library System® tripled, with installations in some of North America's most prestigious academic and municipal libraries, including California's futuristic Cerritos Library. Sales of high-margin retail merchandising products continued to make solid contributions to cash flow.

In 2002, Checkpoint provided 55 percent of the world's 200 largest retailers with identification solutions and/or EAS technology. We established or expanded relationships in all of our regions with such leading retailers as Gateway and Urban Outfitters in North America; Conforama, Kaufhof and Consum in Europe; Pague Menos in Latin America; and Don Quixote and Woolworths in Asia Pacific.

I joined Checkpoint because I was impressed with its people and prospects for growth. Drawn from within the organization, our new management team has the talent, experience and ambition necessary to drive us forward. John Davies and Per Levin are focusing on aggressive programs to grow our business, while Craig Burns is spearheading improvements in productivity and cost management. We are guided by a new nine-member board of directors with diverse skills relevant to our future, including retail, apparel and multinational industry expertise.

Our potential is exciting. EAS has achieved a 50- to 60-percent penetration in the United States, but only 40 to 45 percent in Europe and 15 to 20 percent in Asia Pacific. We see growth prospects in all of these geographies, as well as opportunities for existing accounts with technology upgrades and more comprehensive shrink management solutions.

In the \$2.5- to \$3-billion global market for tickets, tags and labels, our current sales are approximately \$240 million. Our worldwide support operations and our Check-Net service bureau capabilities are attracting new customers. As the apparel industry integrates EAS into its ticketing programs, we can compete on cost because we manufacture both tags and circuits.

The current interest in the RFID Electronic Product Code (EPC) brings to mind the adoption of the Universal Product Code (UPC), which saw an evolutionary period of more than a decade before widespread acceptance. With our expertise in RF circuit applications, we can help retailers assess and transition to EPC/RFID. Going forward, we will vigorously raise our profile in this area.

INNOVATIONCONNECTIVITY**INTELLIGENCE**

To fulfill our growth potential, we plan to increase research and development spending to 2 percent of sales up from 1.4 percent, focusing on

[EXPLORING OPPORTUNITIES]

expanding Liberty and Check-Net capabilities and supporting a newly formed business development function to identify business issues where our existing or emerging technologies can make a positive impact.

Our 2002 performance was a direct result of the efforts of our employees around the world—a talented team that focuses its passion on providing excellent customer service, enhancing margins and improving productivity. Their dedication, as well as our solid cash position, commitment to honest accounting, and our equity in RF technology will enable us to deliver shareholder value and help customers achieve their business and operational goals in the years to come.



George Off
Chairman and Chief Executive Officer



Our access control systems (far left) prevent unauthorized entry.

Our antenna designs suit any store environment.



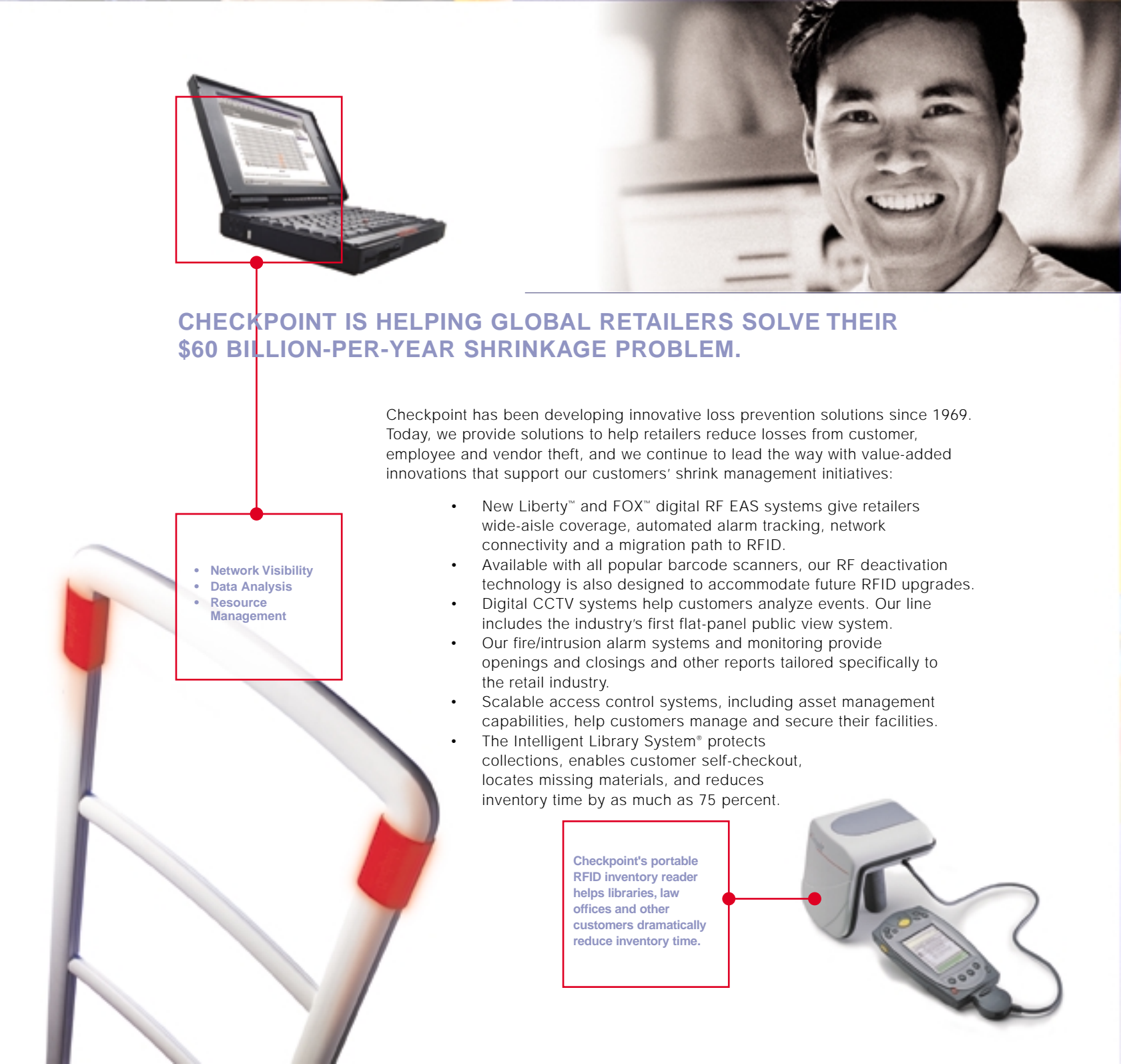
CHECKPOINT IS HELPING GLOBAL RETAILERS SOLVE THEIR \$60 BILLION-PER-YEAR SHRINKAGE PROBLEM.

Checkpoint has been developing innovative loss prevention solutions since 1969. Today, we provide solutions to help retailers reduce losses from customer, employee and vendor theft, and we continue to lead the way with value-added innovations that support our customers' shrink management initiatives:

- Network Visibility
- Data Analysis
- Resource Management

- New Liberty™ and FOX™ digital RF EAS systems give retailers wide-aisle coverage, automated alarm tracking, network connectivity and a migration path to RFID.
- Available with all popular barcode scanners, our RF deactivation technology is also designed to accommodate future RFID upgrades.
- Digital CCTV systems help customers analyze events. Our line includes the industry's first flat-panel public view system.
- Our fire/intrusion alarm systems and monitoring provide openings and closings and other reports tailored specifically to the retail industry.
- Scalable access control systems, including asset management capabilities, help customers manage and secure their facilities.
- The Intelligent Library System® protects collections, enables customer self-checkout, locates missing materials, and reduces inventory time by as much as 75 percent.

Checkpoint's portable RFID inventory reader helps libraries, law offices and other customers dramatically reduce inventory time.





INNOVATION

[BUILDING ON CORE STRENGTHS]

CONSUMERS BASE BUYING DECISIONS ON BRAND IDENTIFICATION AND ITEM INFORMATION—SO BOTH GRAPHICS AND VARIABLE DATA MUST BE ACCURATE.

As one of the industry's largest tag and label printers, Checkpoint provides end-to-end solutions for retailers and apparel manufacturers around the globe. Our new Web-based Check-Net® data management system gives customers of our 29 strategically located service bureau operations complete control over the information they need to manage brand identification, variable data and inventory accuracy. Expansion of this e-commerce infrastructure across all business units will further streamline ordering, tracking, billing and other account management functions.

Our identification products and services include:

- Premium-quality tags and labels to reinforce the brand
- Variable data imprinting services and turn-key printing systems that allow manufacturers and retailers to track inventory through the supply chain
- Value-added multi-function tags with integrated RF circuits to secure merchandise and help consolidate ticketing costs

Our high-volume printing systems for variable data documents and bar coding give customers of any size the flexibility to deliver these supply chain identification requirements in house.



Checkpoint can source variably imprinted tickets from 29 locations around the world.



Checkpoint offers a comprehensive range of tag and label solutions, including source tagging, for hard and soft goods.

Check•Net[®]

Global Ticket Source

Checkpoint's digital RF EAS systems support automated event capture and two-way communications between store systems and headquarters, as well as an evolutionary platform when EAS/Rfid environments converge.

With approximately 3,000 manufacturer partners, our source tagging program speeds protected goods to the selling floor, reduces labor costs and allows aggressive open displays.

By detecting and deterring both shoplifting and employee theft, our CCTV systems help control two significant causes of shrinkage losses. They also help retailers obtain civil recovery evidence and protect against false slip-and-fall events.

Checkpoint's deactivation technology helps retailers maximize efficiency at the point-of-sale (POS) and reduces losses from employee theft and collusion.



RETAILERS AND MANUFACTURERS NEED SOLID DATA TO MANAGE THEIR CRITICAL INVENTORIES AND SHAPE THEIR STRATEGIES.

Checkpoint answers the challenge with networkable shrink management and identification solutions that deliver the information our customers need—no matter where they are.

- Our digital RF EAS and CCTV systems deliver real-time alarm information and trend data from stores and distribution centers to headquarters. The new Liberty™ system's wireless communications capabilities allow remote compliance monitoring and system diagnostics, ensuring maximum performance.

CONNECTIVITY

[MAXIMIZING RESULTS]



Our barcode and document printing systems facilitate logistics—ultimately getting goods to the selling floor faster.



As a manufacturer of both premium tags and labels and RF circuits, Checkpoint helps retailers and apparel manufacturers reduce ticketing costs with integrated tags.




Check-Net, our secure online site, gives customers around-the-clock access to our global network of 29 service bureaus for on-time, complete deliveries.

Our CheckPro™ Reporter software gives retail management valuable information to analyze alarm events.



- Our Check-Net® information hub links our customers with their vendor partners, distributors and our service bureaus. Retailers enter ticketing data requirements on a secure website, selected from vendor-specific label catalogs. The orders are staged for release to manufacturing and imprinting locations and merged with merchandise, so retailers receive on-time, complete shipments. Check-Net streamlines identification management with on-line order tracking, invoicing, payment and a selection of key reports.

Our ability to interface with our customers' networks helps them do business more efficiently. As the retail industry embraces the EPC, Checkpoint's RFID technology makes connectivity more vital with added intelligence.



Enhanced Loyalty On-Time/Complete Delivery
 Data Accuracy Greater Efficiency
 Brand Integrity Fewer Out-of-Stocks
 Safety/Security Reduced Inventory Requirements
 Improved Profitability

INTELLIGENCE

[LEADING THE EVOLUTION]

IN A HIGHLY COMPETITIVE RETAIL MARKETPLACE, CURRENT AND ACCURATE SUPPLY CHAIN INFORMATION REPRESENTS A SIGNIFICANT ADVANTAGE.

Retailers need data to run their business more efficiently, to adjust operations, to plan more effectively and to make better decisions.

Checkpoint delivers smart, seamless solutions to help customers meet these complex challenges. By providing case- or item-level detail, RFID enhances our capability to add this value.

- Our shrink management solutions provide data that optimizes performance and results. Our Electronic Signatures® line of intelligent tags is designed to support enhanced applications, such as “smart” shelving systems, POS verification and exit identification.
- Our identification solutions provide essential logistics and merchandising support, as well as significant cost savings. Our smart tags and labels can further increase both efficiencies and savings by supporting automated inventory validation and tracking from manufacturing through distribution and receiving.

In the retail environment, RFID is likely to co-exist with bar codes and current EAS technologies for some time. Our existing digital RF systems provide the ideal platform as hybrid EAS/RFID environments evolve. As this evolution continues, we will leverage our infrastructure, knowledge base and current RFID successes to address our customers' business needs. We will enhance existing offerings and introduce new products and services through internal development, technology partnerships and strategic acquisitions to ensure that our customers have the best identification and security solutions to achieve their goals.



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MACH3

DONNAKARAN
INTIMATES

STRETCH

LAURE
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O'NEILL
Barcode
MADE IN CHINA

LIMED*ROO
SNEGGY
LIMITED*ROO
BRUSHED BACK
SATIN

TO PURCH
PRESEN
CASH
REFL

SIDEOL
SWIM BOTTOM

Gold Glow Rose
Rosa 'Gold Glow'



swim
wear
411
LIMITED*ROO

Comforty and cozy. Settle
for a night in the
world's best pajamas.
Woven soft and a soft
brushed back make these
PJ's a girls' dream.

340
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ADVANT
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NO
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Corte Ingles
MARK

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Nix Roses
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Whitehouse, Texas
75791

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PLAY & MUSIC

8
100% COTTON
MADE IN MEXICO
RIP TAGS
SEE REVERSE
FOR CARE
MACHINE WASH
WARM WITH LIKE
COLORS
ONLY NON-CHLORINE
BLEACH WHEN
NEEDED.
TUMBLE DRY MEDIUM
REMOVE PROMPTLY.

XPRESS
CISION FIT™ ★

Topwar

Kiabi Outdoor

s.Oliver

French Laundry

sensual

OGER

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THE LIMITED
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Kiabi Free

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SYNCHILLA

Kiabi Maman

bi Lingerie

STAND

ANTHROPOLOG

SYNCHILLA

JUST BELOW

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Checkpoint[®] 

One source for branding, tracking, and securing