



# PERFORMANCE +

Generating More Value in the Global Marketplace

2003 Annual Report

*Checkpoint*<sup>®</sup>



## OUR VISION

We will be the **leading** provider of innovative solutions that revitalize **the way** manufacturers and retailers identify, secure and merchandise consumer goods **worldwide**.

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# FINANCIAL HIGHLIGHTS

Checkpoint Systems, Inc.

(Thousands, except per share amounts)

	2003	2002	2001	2000	1999
<b>Operating Results</b>					
Net Revenues	\$ 723,262	\$ 639,486	\$ 658,535	\$ 690,811	\$ 373,062 <sup>k</sup>
Gross Profit	\$ 295,993 <sup>a</sup>	\$ 262,599 <sup>c</sup>	\$ 256,284 <sup>f</sup>	\$ 272,848 <sup>h</sup>	\$ 146,773
Net Interest Expense	\$ 9,589	\$ 13,280	\$ 19,099	\$ 19,836	\$ 4,297
Income Taxes	\$ 14,431	\$ 12,020	\$ 6,857	\$ 3,115	\$ 2,655
Net Earnings/(Loss)	\$ 29,882 <sup>b</sup>	\$ (47,282) <sup>d,e</sup>	\$ 6,635 <sup>g</sup>	\$ (2,766) <sup>i,j</sup>	\$ 6,666 <sup>l</sup>
Diluted Earnings/(Loss) per Share	\$ .84	\$ (1.10)	\$ .21	\$ (.09)	\$ .22
Cash Flow from Operating Activities	\$ 101,790	\$ 110,041	\$ 102,830	\$ 3,172	\$ 87,536
<b>Financial Position</b>					
Cash and Investments	\$ 110,376	\$ 54,670	\$ 43,698	\$ 28,121	\$ 87,718
Working Capital	\$ 81,161	\$ 112,077	\$ 129,963	\$ 157,089	\$ 175,430
Current Assets	\$ 374,102	\$ 300,144	\$ 313,573	\$ 371,155	\$ 412,501
Total Debt	\$ 145,791	\$ 209,325	\$ 293,511	\$ 385,081	\$ 441,162
Shareholders' Equity	\$ 327,561	\$ 225,246	\$ 240,263	\$ 237,679	\$ 255,795
Total Assets	\$ 773,322	\$ 679,770	\$ 752,653	\$ 867,990	\$ 944,873

a Includes a \$1.9 million pre-tax restructuring charge, a \$1.5 million pre-tax asset impairment, and a \$0.1 million pre-tax restructuring charge reversal, as a result of a change in estimates.

b Includes a \$5.0 million restructuring charge (net of tax), a \$1.0 million asset impairment (net of tax), and a \$0.2 million restructuring charge reversal (net of tax), as a result of changes in estimates.

c 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.

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

e 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, *Goodwill and Other Intangible Assets*.

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

g 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).

h 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.

i 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).

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

k Amounts have been restated to conform with Emerging Issues Task Force 00-10, *Accounting for Shipping and Handling Fees and Costs*.

l Includes a restructuring charge of \$7.7 million (net of tax).



## MESSAGE TO SHAREHOLDERS

Increased productivity | Real growth

**Pictured above, from left to right:**

**John Van Zile**  
Senior Vice President,  
General Counsel & Secretary

**George W. Off**  
Chairman & Chief Executive Officer

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

**John E. Davies, Jr.**  
Executive Vice President & General  
Manager, Americas/Asia Pacific

**Per Levin**  
Executive Vice President  
& General Manager, Europe

*(Not pictured)*

**Pablo del Amo Serrano**  
Senior Vice President,  
Human Resources Worldwide

At Checkpoint®, 2003 was a year of solid progress despite a difficult global economy. We recorded year-over-year sales growth; reduced product costs; increased investments in research, product development and marketing with a focus on radio frequency identification (RFID) technologies; and further strengthened our balance sheet.

We reported revenue of \$723.3 million, compared to \$639.5 million in 2002—an increase of 13 percent, or 3 percent on a constant currency basis. Net earnings were \$0.84 per share, an increase of 12 percent before the effect of a change in accounting principle in 2002. Cash flow from operations exceeded \$100 million for the third consecutive year. Real sales growth, increased productivity and the positive effect of foreign exchange all contributed to a strong cash position, which enabled us to fund many initiatives to build for the future.

More than half of our business was generated from Europe, under the direction of Per Levin, our European general manager. The European retail industry is embracing the connectivity capabilities and performance of our new, third-generation digital radio frequency (RF) electronic article surveillance (EAS) systems. Our Check-Net® ticket printing and on-line ordering services are bringing international apparel retailers and manufacturers on board at an impressive rate.

Under the leadership of John Davies, general manager for the Americas and Asia Pacific, sales of our EAS products drove growth in emerging markets in the Asia Pacific region, where we completed several large rollouts for our customers. The Security Systems Group (SSG) in the United States reported excellent sales growth as retailers took advantage of digital recording technology and our new product introduction, the Clarity® Advanced Public View (APV) system.

Under the guidance of Craig Burns, our chief financial officer, we have reduced our product costs, streamlined operations and improved productivity. Increased volume and more efficient manufacturing resulted in better product margins, particularly for our Security products. In addition, we continued to improve our balance sheet, ending 2003 with a significantly stronger and more flexible financial foundation. During the year, we reduced our debt by \$75 million and ended the year with \$110 million in cash.

Our RFID activities continue to generate interest in a variety of diverse markets. Our RFID-based Intelligent Library System® is a growing and profitable business that gives us significant experience with RFID technology and inventory control. Additionally, we are a technology partner in Metro's Future Store RFID Initiative in Germany. As the world's largest supplier of RF tags for consumer packaged goods, we have extensive expertise that is valuable to suppliers who require case/pallet tracking systems. This experience supports industry initiatives from market leaders such as Wal-Mart, Metro, Target, Tesco and the U.S. Department of Defense.

Driven by the constantly evolving needs of our marketplace, we continue to develop new products that add value for our customers. In order to help our customers leverage their RF EAS technology investments, we are enhancing our EAS products, as well as building bridges between EAS and RFID. To that end, we have significantly increased spending on research and development. Our 2004 R&D budget is twice what we spent in this area in 2002. As we streamline costs, we will continue to increase our R&D investments in strategic areas in order to expand our market leadership. We will look carefully at investment opportunities to extend our current lines of business and technology offerings and enhance our ability to meet our customers' needs now and in the future.

By the year's end, our 2003 results exceeded expectations, thanks to our strong fundamentals, our proven business model, and the continued hard work and commitment of our more than 4,000 Checkpoint employees around the world. That passion and energy bodes well for 2004. Checkpoint has the strategies, people and resources in place to deliver performance, engender confidence and generate value for our customers and shareholders around the world.



George Off  
Chairman & Chief Executive Officer



# REDRAWING THE MAP

We make it easy to do business in a global economy



*Checkpoint is the world's No. 1 provider of radio frequency antennas and readers for the retail industry.*

The world is changing. Consolidation, blurring boundaries and new economies all impact our customers' business. As industry watcher Retail Forward has noted, "most of the growth around the globe is taking place in emerging markets." Increasingly, retailers and manufacturers need a global source for supply chain management solutions—and Checkpoint® delivers.

Checkpoint has the infrastructure and partnerships to support our customers wherever they are—and wherever they're going. From New York to Naples to Nanking and New South Wales, Checkpoint delivers smart solutions that make it easy for our customers to do business with increased efficiency, cost savings, rapid response and superior service.

### Long-term relationships with retail industry leaders

Over the last three decades, we've built strong relationships throughout the retail industry. More than half of the world's

200 largest retailers rely on our EAS, CCTV and/or identification solutions to help them reduce shrink and increase productivity.



*Our paper-thin RF circuits are the ideal solution for source tagging hard goods and soft goods of all kinds.*

Additionally, we have worked with more than 5,000 source tagging partners around the globe, including some of the world's best-known brands, to provide floor-ready, secured consumer packaged goods and apparel.

Our retail partners and customers include Best Buy, Esprit, Gateway, Home Depot, Kohl's, Linens 'n Things, MarMaxx and Target in North America; Auchan, Carrefour and Metro in Europe; Pague Menos in Latin America; and Don Quixote and Woolworths in Asia Pacific.

High-performance technology used in our new digital RF systems has helped make Checkpoint the world leader in EAS for drugstores and supermarkets, including Ahold, Albertsons, Continente, Gigante, Intermarché, Rite Aid, Walgreens and many others.

### The choice for fast fashion

We're also making our mark in the apparel industry with just-in-time ticketing solutions, including our advanced Check-Net® global



*Our new digital RF EAS systems take asset protection to the next level, with outstanding performance and flexibility.*

ticket source, an e-commerce platform tied to our worldwide network of printing facilities. For manufacturers and vendors alike, Check-Net removes potential bottlenecks in the ticketing process and helps get merchandise on the selling floor faster. With proprietary resources

for high-quality printing, variable data management and security tagging, we offer integrated ticketing solutions that help retailers reduce labor, minimize tag clutter and put merchandise on open display with complete confidence.

### Global breadth / Local depth

With our recently expanded network of 29 service bureau operations in goods-producing countries, strategically located manufacturing facilities,



*Check-Net adds value with web-enabled ordering of high-quality printing, variable data management and source tagging.*

direct sales in 30 countries and distributors in more than 50 countries, we have the global resources to meet the needs of the world's largest retailers and manufacturers. At the same time, the more than 1,200 members of our sales and service team understand the special needs and nuances of their respective local markets. Most important, our people have the experience and expertise necessary to help customers extract maximum business value from their investment in Checkpoint technology.

### Integrated solutions / Shared goals

Our value-added service sets us apart and helps us build sustainable customer relationships. The scope of our product offerings puts Checkpoint

in a unique position to tailor seamlessly integrated, competitively priced solution sets that streamline supply chain



*Our comprehensive security products, such as our advanced public view monitor, help customers control internal and external theft.*

processes. Checkpoint solutions help our customers identify, track, secure and merchandise apparel and consumer goods more effectively in order to meet their organizations' goals for productivity and profitability.



## SUPPLY CHAIN | VALUE GAIN

Advanced tools increase efficiency and inventory accuracy

In the highly competitive markets we serve, increased supply chain efficiency is critical. Checkpoint's source-to-shelf services add value at key checkpoints along the supply chain—reducing labor costs, getting goods to the sales floor faster, and providing better information to help our customers make the best decisions.

### Adding value / Manufacturing and distribution

A pioneer in source tagging, Checkpoint® has nearly 15 years of experience working with manufacturers and distributors worldwide to integrate EAS anti-theft labels into production or packaging lines.

Today, we're leveraging our experience to help suppliers meet recent market requirements for EPC/RFID case/pallet tracking



*We have demonstrated end-to-end RFID solutions for manufacturing and distribution environments.*

and to obtain the operational and inventory benefits that this technology offers. Built on our proven RFID technology, our affordable source-to-shelf solutions include tags, printers, shipping and receiving dock-door readers, and

tracking software that integrates with enterprise business systems to increase inventory visibility.

### Adding value / The retail store

Checkpoint's powerful tools for loss prevention and inventory management help retailers increase sales, improve service, secure their in-stock positions and keep prices competitive. From the stock room to the front door, from shelf labels to integrated source tags to sleek public view CCTV systems, our products are designed to support open merchandising and enhance the store image and the consumer experience.

Our new digital third-generation RF EAS systems and CheckPro Reporter™ software give retailers more of the loss prevention management control options they need to deploy resources most effectively. These systems provide remote communications capability, as well as a clear migration path from EAS to RFID.



*Our software automates alarm analysis and enables retailers to target their loss prevention efforts for maximum impact.*



*Our digital RF technology platform provides a logical migration path as the retail industry evolves toward EPC/RFID.*

RFID holds tremendous promise. Analysts at Accenture have indicated that EPC/RFID could reduce labor requirements for cycle counting and could significantly increase in-store item availability. But the challenges of RFID implementation are equally great. With so much at stake, supply chain stakeholders need a partner they can trust—a partner like Checkpoint.

**Leveraging core competencies**  
Checkpoint has more than 35 years of experience in RF technology. Today we are the world's leading provider of RF antennas and readers, and we produce billions of RF tags annually. With extensive expertise in single-bit RFID-based EAS and multi-bit RFID-based access control and asset tracking systems, Checkpoint is in a strong position to bridge the gaps among converging technologies.



*Our Intelligent Library System self-checkout station is easy for patrons—and a time-saver for library staff.*

Our Intelligent Library System® is a case in point. Proven to reduce asset losses dramatically and to cut materials handling time by as much as 75 percent, our RFID-based system has achieved a majority market share of RFID library installations around the world. It demonstrates the value of item-level RFID and delivers the same kind of productivity increases that retailers need to stay competitive.

**Real-world RFID**  
We're committed to helping customers realize the potential of RFID. Our EPC/RFID compliance centers and fixed-price pilots help customers explore deployment scenarios and mitigate the risks of implementation. To ensure that we continue to offer our

customers technology solutions that grow with their needs, we have increased our spending on R&D more than 66 percent over



*We are expanding our commitment to new product development in all areas of our business.*

2002 levels, including investments in engineering, middleware and data networks. In addition, we are pursuing strategic acquisitions that expand our ability to offer RFID solutions with measurable value.

## TECHNOLOGY IN TRANSITION

Checkpoint solutions help customers migrate efficiently





## MOVING AHEAD

Competing in the global marketplace of the future

New markets, new sales channels, new technology breakthroughs....What's next? As a customer-focused, market-driven



*Our product lines are designed to help retailers and manufacturers enhance the consumer's shopping experience.*

company, Checkpoint® is leading the way, with an expert eye on technology developments and market trends in today's rapidly evolving retail industry.

### Staying close to the market

In the near term, EPC/RFID will have the greatest impact, as the retail industry adopts case/pallet tracking and moves toward item-level applications. Our ongoing involvement with the organizations developing global standards helps ensure that we can offer our customers solutions that can grow with them into the future. We were the only supplier asked to demonstrate EPC/RFID at the National Association of Chain Drug Stores (NACDS) trade show. We listen closely to our customers, bringing them together with industry thought leaders in dynamic RFID/source tagging forums and conferences

in both Europe and the United States. We also stay involved in their industries, through our support and sponsorship of such events as the upcoming Efficient Consumer Response (ECR) Annual Conference in Brussels and the International Apparel Federation (IAF) World Apparel Convention in Barcelona.



*We partner with customers to implement the right retail technology to meet their needs now and in the future.*

### Sustaining the vision

We're a company on the move. Going forward, we will continue to focus on our core strengths and expand our research and development efforts. We will also continue to seek out and develop best-of-breed partnerships that complement our product portfolio and enable us to enhance our offerings. And, we will make the right strategic acquisitions and investments in order to keep our company and our customers competitive and to build sustainable value for our customers and our shareholders.



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