

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

**CHECKPOINT SYSTEMS INC**

CIK: **215419** | IRS No.: **221895850** | State of Incorpor.: **PA** | Fiscal Year End: **1231**  
Type: **10-Q** | Act: **34** | File No.: **001-11257** | Film No.: **95536171**  
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FORM 10-Q  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549

QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 26, 1995

Commission file number 1-11257

Checkpoint Systems, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

22-1895850

(State or other jurisdiction of  
incorporation or organization)

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

101 Wolf Drive P.O. Box 188 Thorofare, New Jersey 08086

(Address of principal executive offices)

(Zip Code)

(609) 848-1800

(Registrant's telephone number, including area code)

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

Yes X No

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As of May 5, 1995 there were 13,853,279 of the Common Stock outstanding.

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CHECKPOINT SYSTEMS, INC.

FORM 10-Q

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CHECKPOINT SYSTEMS, INC.

CONSOLIDATED BALANCE SHEETS

	March 26, 1995	December 25, 1994
	-----	-----
	(Unaudited)	
	(Thousands)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 349	\$ 944
Accounts receivable, net of allowances of \$1,710,000 and \$1,570,000	38,373	33,290
Inventories	35,712	29,486
Other current assets	4,929	4,385
Deferred income taxes	1,117	1,117
	-----	-----
Total current assets	80,480	69,222
PROPERTY, PLANT AND EQUIPMENT, net of accumulated depreciation and amortization	40,897	36,799
EXCESS OF PURCHASE PRICE OVER FAIR VALUE OF NET ASSETS ACQUIRED	20,390	10,120
INTANGIBLES	5,807	5,826
OTHER ASSETS	6,911	5,958
	-----	-----
TOTAL ASSETS	\$154,485	\$127,925
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
-----		
CURRENT LIABILITIES		
Accounts payable	\$ 9,367	\$ 10,064
Accrued compensation and related taxes	3,432	2,635
Income taxes	1,190	2,223
Unearned revenues	4,949	3,357
Other current liabilities	5,558	4,810
Short-term borrowings and current portion of long-term debt	4,387	6,706
	-----	-----
Total current liabilities	28,883	29,795
LONG-TERM DEBT, LESS CURRENT MATURITIES	59,758	35,556
DEFERRED INCOME TAXES	1,271	1,271
SHAREHOLDERS' EQUITY		
Preferred Stock, no par value, authorized 500,000 shares, none issued		
Common Stock, par value \$.10 per share, authorized 100,000,000 shares, issued 11,551,179 and 11,278,511	1,155	1,128
Additional capital	25,857	21,592
Retained earnings	46,993	46,789
Common stock in treasury, at cost, 799,000 shares	(5,664)	(5,664)
Foreign currency adjustments	(3,768)	(2,542)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY	64,573	61,303

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$154,485	\$127,925
	=====	=====

See accompanying notes to consolidated financial statements.

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CHECKPOINT SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Quarter (13 Weeks) Ended	
	March 26, 1995	March 27, 1994
(Thousands, except per share data)		
Net Revenues	\$37,360	\$26,223
Cost of Revenues	21,269	13,960
	-----	-----
Gross Profit	16,091	12,263
Selling, General and Administrative Expenses	14,627	11,175
	-----	-----
Operating Income	1,464	1,088
Interest Income	169	111
Interest Expense	1,056	412
Foreign Exchange Loss	286	84
	-----	-----
Earnings Before Income Taxes	291	703
Income Taxes	87	176
	-----	-----
Net Earnings	\$ 204	\$ 527
	=====	=====
Net Earnings Per Share	\$ .02	\$ .05
	=====	=====

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY  
(Unaudited)

Quarter (13 Weeks) Ended March 26, 1995

	(Thousands)					Total
	Common Stock	Additional Capital	Retained Earnings	Treasury Stock	Foreign Currency Adjust.	
(Thousands)						
Balance,						
December 25, 1994	\$ 1,128	\$21,592	\$46,789	\$ (5,664)	\$ (2,542)	\$61,303
Net Earnings			204			204
Exercise of Stock Options	7	787				794

Stock issuance in connection with business acquisition	20	3,478				3,498
Foreign Currency Adjustments					(1,226)	(1,226)
	-----	-----	-----	-----	-----	-----
Balance at March 26, 1995	\$ 1,155	\$25,857	\$46,993	\$ (5,664)	\$ (3,768)	\$64,573
	=====	=====	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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CHECKPOINT SYSTEMS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Quarter (13 Weeks) Ended	
	March 26, 1995	March 27, 1994
	-----	-----
	(Thousands)	
Cash inflow (outflow) from operating activities:		
Net earnings	\$ 204	\$ 527
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Net book value of rented equipment sold	168	116
Long-term customer contracts	(196)	(1,080)
Depreciation and amortization	2,737	1,661
Provision for losses on accounts receivable	251	171
(Increase) decrease in current assets:		
Accounts receivable	(1,470)	(1,488)
Inventories	(4,341)	(1,956)
Other current assets	580	888
Increase (decrease) in current liabilities:		
Accounts payable	(4,140)	(4,748)
Accrued compensation and related taxes	145	169
Income taxes	(1,402)	(212)
Unearned revenues	469	75
Other current liabilities	(581)	(800)
	-----	-----
Net cash used by operating activities	(7,576)	(6,677)
	-----	-----
Cash inflow (outflow) from investing activities:		
Acquisition of property, plant and equipment	(2,335)	(822)
Acquisition, net of cash acquired	(10,061)	-
Purchase of customer list	-	-
Other investing activities	(420)	(904)

Net cash used by investing activities	(12,816)	(1,726)
Cash inflow (outflow) from financing activities:		
Proceeds from stock options	795	71
Proceeds of debt	38,000	12,031
Payment of debt	(18,998)	(2,532)
Net cash provided by financing activities	19,797	9,570
Net increase (decrease) in cash and cash equivalents	(595)	1,167
Cash and cash equivalents:		
Beginning of period	944	-
End of period	\$ 349	\$ 1,167

See accompanying notes to consolidated financial statements.

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CHECKPOINT SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

1. BASIS OF ACCOUNTING

The consolidated financial statements include the accounts of Checkpoint Systems, Inc. and its wholly-owned subsidiaries ("Company"). All material intercompany transactions are eliminated in consolidation. The consolidated financial statements and related notes are unaudited and do not contain all disclosures required by generally accepted accounting principles. Refer to the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 1994 for the most recent disclosure of the Company's accounting policies.

The consolidated financial statements include all adjustments necessary to present fairly the Company's financial position at March 26, 1995 and December 25, 1994 and its results of operations and changes in cash flows for the thirteen week periods ended March 26, 1995 and March 27, 1994.

2. INVENTORIES

	March 26, 1995	December 25, 1994
	-----	-----
	(Thousands)	
Raw materials	\$ 6,550	\$ 6,078
Work in process	662	193
Finished goods	28,500	23,215
	-----	-----
	\$35,712	\$29,486
	=====	=====

Inventories are stated at the lower of cost (first-in, first-out method) or market. Cost includes material, labor and applicable overhead.

### 3. INCOME TAXES

Income taxes are provided for on an interim basis at an estimated effective annual tax rate principally on earnings from the Company's U.S. operations. The Company's net earnings generated by the operations of its Puerto Rico subsidiary are exempt from Federal income taxes under Section 936 of the Internal Revenue Code and substantially exempt from Puerto Rico income taxes. Under Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes", deferred tax liabilities and assets are determined based on the difference between financial statement and tax basis of assets and liabilities using enacted statutory tax rates in effect at the balance sheet date.

### 4. PER SHARE DATA

Per share data is based on the weighted average number of common and common equivalent shares (stock options) outstanding during the periods. The number of shares used in the per share computations for the thirteen week periods were 11,302,000 (1995) and 10,504,000 (1994).

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CHECKPOINT SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

### 5. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for the thirteen week periods ended March 26, 1995 and March 27, 1994, respectively, included interest payments of \$566,000 and \$402,000 and income taxes paid of \$1,500,000 and \$107,000.

Also excluded from the investing activities in the Consolidated Statements of Cash Flows are net transfers from inventory to property, plant and equipment of \$2,690,000 and \$371,000 for the thirteen week periods ended March 26, 1995 and March 27, 1994, respectively, relating to equipment rented to customers.

In February 1995, the Company purchased all of the capital stock of Alarmex, Inc. together with its related company Bayport Controls, Inc. (collectively "Alarmex") for \$13,498,000. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired.....	\$21,595,000
Cash paid and fair value of stock issued for the capital stock.....	\$13,498,000
	-----
Liabilities assumed.....	\$ 8,097,000
	=====



In addition, excluded from acquisitions, net of cash acquired in the 1995 Consolidated Statement of Cash Flows is a non-cash portion of the purchase price of Alarmex relating to 200,717 shares of the Company's common stock valued at \$3,498,000.

#### 6. INTANGIBLES

Intangibles consist of patents, licenses, customer lists, and software development costs. The costs relating to the acquisition of patents and licenses are amortized on a straight-line basis over their economic useful lives, which is considered to be ten years. Accumulated amortization approximated \$1,336,000 and \$1,027,000 at March 26, 1995 and December 25, 1994, respectively.

The costs of internally developed software are expensed until the technological feasibility of the software has been established. Thereafter, all software development costs are capitalized and subsequently reported at the lower of unamortized cost or net realizable value. The costs of capitalized software are amortized over the products' estimated useful lives or five years, whichever is shorter. During the first quarter of 1995, \$120,000 of software development costs were capitalized. Accumulated amortization of these costs approximated \$1,063,000 and \$965,000 at March 26, 1995 and December 25, 1994, respectively.

#### 7. ACQUISITION

On February 1, 1995, the Company purchased Alarmex for approximately \$13.5 million (\$10 million in cash and the balance in 200,717 shares of Common Stock of the Company). The Company financed the cash portion of the Alarmex acquisition with a private placement of the Company's long-term notes.

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CHECKPOINT SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

#### 7. ACQUISITION (continued)

Alarmex designs and provides CCTV, POS monitoring, burglar and fire alarm systems and also provides related central station monitoring services to over 9,000 retail sites in the United States.

The following table represents unaudited combined results of operations for the first three months of 1995 and 1994, as if the acquisition of Alarmex had occurred at the beginning of those respective periods. The following results are not necessarily indicative of what would have occurred had the acquisition been consummated as of that date or of future

results:

Three Months (13 weeks) Ended	
March 26, 1995	March 27, 1994

(Thousands, except per share data)

Net revenues.....	\$38,255	\$30,987
Net earnings.....	\$ 119	\$ 164
Earnings per common share.....	\$ .01	\$ .02

## 8. ACCOUNTING FOR FOREIGN CURRENCY TRANSLATION AND TRANSACTIONS

The Company's balance sheet accounts of foreign subsidiaries are translated into U.S. dollars at the rate of exchange in effect at the balance sheet dates. Revenues, costs and expenses of the Company's foreign subsidiaries are translated into U.S. dollars at the average rate of exchange in effect during each reporting period. The resulting translation adjustment is recorded as a separate component of stockholders' equity. In addition, gains or losses on long-term intercompany transactions are excluded from the results of operations and accumulated in the aforementioned separate component of consolidated stockholders' equity. All other foreign transaction gains and losses are included in the results of operations.

The Company has purchased certain foreign currency forward contracts in order to hedge anticipated rate fluctuations in Europe. Transaction gains or losses resulting from these contracts are recognized over the contract period.

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CHECKPOINT SYSTEMS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)  
(Unaudited)

## 9. LONG-TERM DEBT

On January 26, 1995, the Company issued and sold \$15,000,000 aggregate principal amount of 9.35% series B Notes (the "Notes") pursuant to a Note Agreement dated as of January 15, 1995, among the Company and Principal Mutual Life Insurance Company. The Notes are due January 30, 2003 and bear interest from the issue date (computed on the basis of a 360 day year) payable semi-annually on January 30 and July 30 of each year commencing July 30, 1995. Notes of \$3,000,000 are due on each January 30 commencing January 30, 1999 through January 30, 2003. The Notes are uncollateralized and rank equally to the Company's other funded debt. The notes contain certain covenants which the Company considers to be normal in transactions

of this type.

On February 15, 1995, the Company entered into a new \$25,000,000 revolving Credit Agreement which replaces the Company's Revolving Credit Agreements that were in existence at year end. Proceeds of \$14,880,000 were used to pay off borrowings under an existing Revolving Credit Agreement with the Company's principal lending bank. At March 26, 1995, borrowings of \$23,000,000 under this credit agreement were outstanding with an average interest rate of 8.31%. This agreement expires on May 1, 1996. This agreement contains certain restrictive covenants which, among other things, requires maintenance of specified minimum financial ratios including debt to capitalization, interest coverage and tangible net worth. In addition, this agreement limits the Company's ability to pay dividends.

## 10. CONTINGENCIES

The Company, together with two of its senior officers, are defendants in an action entitled ADT, Inc. and Actron AG v. Checkpoint Systems, Inc. and Albert E. Wolf and Kevin P. Dowd (D.C.N.J.#95-730) which was filed on February 9, 1995.

In this action, Actron AG, one of the Company's principal European competitors, alleges that the Company, in violation of certain common laws and contractual obligations (1) unlawfully employed in Europe three former employees of Actron who allegedly are in possession of, and have disclosed to the Company, certain of Actron's confidential information, (2) has attempted to employ in Europe certain other of Actron's current employees, (3) has interfered with certain contractual relationships between Actron, its former employees, and the supplier of Actron's disposable EAS tags and (4) has, in allegedly engaging in the activities complained of, committed acts of unfair competition. The Court has set a date for mid-May 1995 to hear arguments on the Company's motion to dismiss the complaint and no hearing date has been set by the Court to hear Actron's motion to enjoin the Company from allegedly using Actron's confidential information. Discovery by both parties has commenced. The Company intends to defend itself vigorously. While the outcome of litigation can never be predicted with certainty and the lawsuit is still in its very preliminary stages, the Company does not anticipate that its ultimate outcome will have a material effect on its operations or financial condition.

## 10. CONTINGENCIES (continued)

The Company has been informed that it, along with several officers and a director, have been named as defendants in an action entitled Cohen v. Checkpoint Systems, Inc. et. al. (No. 95-1042) which was filed on March 9, 1995 in the United States District Court in New Jersey. This action, which seeks class certification, alleges generally that the defendants participated in a course of conduct to conceal adverse material information about the operating results and future business prospects of the Company as a result of which the Company's stock price was artificially inflated during the period October 21, 1994 through March 7, 1995. Plaintiff alleges that the conduct set forth in the preceding sentence was in violation of certain federal securities laws. The Company believes that the plaintiffs' allegations are entirely without merit and intends to defend itself vigorously.

#### 11. SUBSEQUENT EVENT

The Company completed the sale of approximately 3.1 million shares of Common Stock during the second quarter of this year pursuant to an underwriters public offering. The net proceeds received by the Company from this offering approximated \$55.5 million. Of these proceeds, \$25 million was used to reduce the amount outstanding under the Company's revolving credit line. The balance of the proceeds are expected to be used for general corporate purposes including (i) funding strategic acquisitions or start-up opportunities, and (ii) funding the Company's leasing programs.

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CHECKPOINT SYSTEMS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

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First Quarter 1995 Compared to First Quarter 1994

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#### Overview

During the first quarter of 1995 revenues increased by approximately \$11.1 million (or 42.5%) over the prior year's first quarter. Continued improvement in the cost of revenues as a percentage of net revenues (from 46.8% to 48.4%) in the Company's base operations (excluding the impact of the Alarmex acquisition and write up in inventory values under purchase accounting) resulted in a significant increase in incremental gross profit from that obtained in last year's first quarter. This improvement was driven primarily by a reduction in service cost as a percentage of sales

by 1.7% within the Company's EAS operations (8.8% compared to 10.5%). Including the Alarmex operations, cost of revenues increased by 3.7% (from 53.2% to 56.9%). Selling general and administrative ("SG&A") expenses increased \$3.5 million but declined as a percentage of revenues (from 42.6% to 39.2%). Income from operations increased \$.4 million (from \$1.1 million to \$1.5 million). Net earnings however, declined by \$.3 million (from \$.5 million to \$.2 million) due to higher interest expense and increased foreign exchange losses (compared to last year's first quarter) and certain costs and expenses attributable to the Alarmex acquisition.

#### Net Revenues

Net revenues increased approximately \$11.1 million (or 42.5%) over the first quarter of 1994 (from \$26.2 million to \$37.4 million). Domestic and international net revenues accounted for approximately 63.1% and 36.9%, respectively, of total net revenues compared to 61.2% and 38.8% for last year's similar quarter. Domestic retail EAS net revenues increased \$1.8 million (or 13.8%) primarily as a result of increased unit sales. International EAS net revenues increased \$3.5 million (or 33.9%) primarily as a result of: higher sales volume generated by the Company's operations in Europe (\$2.7 million) including sales to a major customer in Spain (\$1.5 million); and increased sales by the Company's Argentinean and Mexican subsidiaries (\$.5 million and \$.2 million, respectively). Sales contributed by the Company's Alarmex subsidiary which was acquired on February 1, 1995 also contributed positively to the increase in revenues by \$5.5 million. The Company's Access Control product line had sales growth of \$.4 million or 31.1% (from \$1.1 million to \$1.5 million) compared to the prior year's first quarter as a result of increased sales to two primary customers.

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CHECKPOINT SYSTEMS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

RESULTS OF OPERATIONS (continued)

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First Quarter 1995 Compared to First Quarter 1994

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#### Cost of Revenues

Cost of revenues increased approximately \$7.3 million (or 52.4%) over the first quarter of 1994 (from \$14.0 million to \$21.3 million). As a percentage of net revenues, cost of revenues increased 3.7% (from 53.2% to 56.9%) compared to the prior year's first quarter. This increase was primarily due to (i) lower gross margins generally associated with the Alarmex products, and (ii) a \$760,000 charge to cost of revenues as a result of a step up in the inventory values associated with the Alarmex

acquisition. Cost of revenues related to the Company's traditional EAS product lines decreased by 1.6% (from 53.2% to 51.6%) primarily resulting from reduced service costs as a percentage of revenues (from 10.5% to 8.8%) due to increased revenues combined with quality improvements in the Company's deactivation product line.

#### Selling, General and Administrative Expenses

SG&A expenses increased \$3.5 million (or 30.1%) over the first quarter of 1994 (from \$11.1 million to \$14.6 million). As a percentage of net revenues, however, SG&A expenses decreased by 3.4% (from 42.6% to 39.2%). The higher expenses (in dollars) were due to (i) an increase in the Company's EAS business (an increase of approximately \$2.5 million compared to the first quarter of 1994) including \$.5 million relating to increased commissions and royalties on higher revenues and (ii) selling, general and administrative expenses related to the Alarmex operations including amortization of goodwill (approximately \$1.0 million).

#### Interest Expense

Interest expense increased by \$.7 million over the first quarter of 1994 (from \$.4 million to \$1.1 million). This increase is the result of interest on (i) increased debt levels from a year ago in order to fund working capital and acquisitions of property, plant and equipment (\$.5 million) and (ii) the issuance of a \$15 million note in connection with the Alarmex acquisition (\$.2 million).

#### Income Taxes

The effective tax rate of 29.9% is higher than the effective tax rate used in last year's first quarter of 25.0%. This is primarily due to (i) higher taxable income attributable to foreign jurisdictions where tax rates are marginally higher than the U.S. and (i) a marginally higher tax rate on the earnings generated by the Company's Alarmex subsidiary.

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CHECKPOINT SYSTEMS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

RESULTS OF OPERATIONS (continued)

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First Quarter 1995 Compared to First Quarter 1994  
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#### Net Earnings

Net earnings were \$.2 million or \$.02 per share versus \$.5 million or \$.05 per share for the first quarter of 1994. The results for the first quarter of 1995, however, included the impact of a \$.8 million (\$.5 million after tax) step up of the Alarmex inventory which is included in cost of revenues as this inventory is sold.

#### Exposure To International Operations

Approximately 74% of the Company's international sales during the first quarter of 1995 were made in local currencies. These sales denominated in currencies other than U.S. dollars increased the Company's potential exposure to currency fluctuations which can adversely affect results. For the first quarter of 1995, currency exchange losses amounted to \$.3 million compared to losses of \$.1 million for the comparable period in the prior year. The primary increase in the currency exchange losses was the result of the continued devaluation of the Mexican peso. As a result of the peso devaluation and continued economic difficulties in Mexico, the Company's operations in Mexico could be negatively impacted during the remainder of 1995, however any such impact is not expected to materially affect the Company's consolidated results.

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CHECKPOINT SYSTEMS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

#### LIQUIDITY AND CAPITAL RESOURCES

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The Company's liquidity needs have related to, and are expected to continue to relate to, capital investments, acquisitions and working capital requirements. The Company has met its liquidity needs over the last three years primarily through funds provided by long-term borrowings. The Company believes that cash provided from operating activities and funding available under its current credit agreements, together with the net proceeds generated from the sale of shares of the Company's Common Stock (discussed below), will be adequate for its presently foreseeable working capital and capital investment requirements.

The Company's net cash used by operating activities of \$7.6 million during the first quarter of 1995 compares to a use of cash totaling \$6.7 million in the prior year's first quarter. This use of cash was primarily the result of (i) an increase in finished goods inventories in order to place equipment at customer's locations under operating lease agreements and to meet anticipated product demand and (ii) reduction of accounts payable from seasonally high year end levels due to the procurement of raw

materials to meet anticipated first quarter product demand.

During the first quarter of 1995 the Company also completed a private placement debt funding of \$15 million. In addition, the Company entered into a new \$25 million revolving credit agreement with a group of banks to replace the existing \$15 million in revolving credit indebtedness outstanding at year end. A significant portion of the private placement funding proceeds, approximately \$13 million, was used for the acquisition of Alarmex and the repayment of existing debt owed by Alarmex at the time of acquisition. The balance of the private placement funding of approximately \$2 million was used for general corporate purposes.

The Company completed the sale of approximately 3.1 million shares of Common Stock during the second quarter of this year pursuant to an underwriters public offering. The net proceeds received by the Company from this offering approximated \$55.5 million. Of these proceeds, \$25 million was used to reduce the amount outstanding under the Company's revolving credit line. The balance of the proceeds are expected to be used for general corporate purposes including (i) funding strategic acquisitions or start-up opportunities, and (ii) funding the Company's leasing programs.

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CHECKPOINT SYSTEMS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS (continued)

LIQUIDITY AND CAPITAL RESOURCES (continued)  
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The Company's capital expenditures during the first quarter totaled \$2.3 million compared to \$.8 million during the first three months of 1994. The Company expects that for the full year investments in property, plant and equipment will approximate \$9 million. These capital expenditures will generally be used for expanding, improving and maintaining plant efficiency at the Company's various production facilities located in the Caribbean. As part of its continuing strategy, the Company is exploring strategic acquisitions in the following areas: international direct distribution, a second source of manufacturing capacity and product line diversification within the Company's core businesses. In order to consummate any one or more particular acquisitions, the Company may require additional debt or equity financing.

The Company sells products for international sales to its international subsidiaries. The subsidiaries, in turn, sell these products to customers in their respective geographic areas of operation in local currencies.



This method of sales and resale give rise to the risk of gains or losses as a result of currency exchange rate fluctuations.

In order to reduce the Company's exposure resulting from currency fluctuations the Company has been purchasing currency exchange forward contracts on a regular basis. These contracts guarantee a predetermined exchange rate at the time the contract is purchased. This allows the Company to shift the risk, whether positive or negative, of currency fluctuations from the date of the contract to a third party. As of March 26, 1995 the Company had currency exchange forward contracts totaling approximately \$10.5 million. The contracts are in the various local currencies covering primarily the Company's six Western European operations along with the Company's Canadian operations. The Company's operations in Argentina, Mexico and Australia were not covered by currency exchange forward contracts at March 26, 1995.

The Company is evaluating the use of currency options in order to reduce the impact that exchange rate fluctuations have on the Company's gross margins for sales made by the Company's international operations. The combination of forward exchange contracts and currency options should result in reducing the Company's risks associated with significant exchange rate fluctuations.

The Company has never paid a cash dividend and has no plans to do so in the foreseeable future. Certain covenants in the Company's debt instruments limit the amounts available for dividends.

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## PART II OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

On March 10, 1993, the United States International Trade Commission ("Commission") instituted an investigation of a complaint filed by the Company under Section 337 of the Tariff Act of 1930. The complaint, as amended, alleged that six respondents imported, sold for importation, or sold in the United States after importation certain anti-theft deactivatable resonant tags and components thereof that infringed certain U.S. Letters Patents of which the Company is exclusive licensee. The Commission's notice of investigation named six respondents, each of whom was alleged to have committed one or more unfair acts in the importation or sale of components or finished tags that infringe the asserted patent claims. Those respondents are: Actron AG; Tokai Denshi Co. Ltd.; ADT, Limited; All Tag Security AG; Toyo Aluminum Ltd.; and Custom Security Industries, Inc.

On March 10, 1994 the United States International Trade Commission issued a Notice of Commission Determination Not to Review an Initial Determination Finding No Violation of Section 337 of the Tariff Act of 1930. The Company has capitalized approximately \$1.9 million in patent defense costs, which is included in 'Intangibles' as of March 26, 1995 and December 25, 1994. The ultimate resolution is undetermined at this time due to the various courses of action available to management. The Company has appealed this determination to the appropriate United States Court of Appeals. Although the Company's management ultimately expects a favorable outcome, should resolution of this matter result in a less than successful defense of the patents in question the deferred patent costs will be written off as a charge to earnings at the time of such resolution.

The Company, together with two of its senior officers, are defendants in an action entitled ADT, Inc. and Actron AG v. Checkpoint Systems, Inc. and Albert E. Wolf and Kevin P. Dowd (D.C.N.J.#95-730) which was filed on February 9, 1995.

In this action, Actron AG, one of the Company's principal European competitors, alleges that the Company, in violation of certain common laws and contractual obligations (1) unlawfully employed in Europe three former employees of Actron who allegedly are in possession of, and have disclosed to the Company, certain of Actron's confidential information, (2) has attempted to employ in Europe certain other of Actron's current employees, (3) has interfered with certain contractual relationships between Actron, its former employees, and the supplier of Actron's disposable EAS tags and (4) has, in allegedly engaging in the activities complained of, committed acts of unfair competition. The Court has set a date for mid-May 1995 to hear arguments on the Company's motion to dismiss the complaint and no hearing date has been set by the Court to hear Actron's motion to enjoin the Company from allegedly using Actron's confidential information. Discovery by both parties has commenced. The Company intends to defend itself vigorously. While the outcome of litigation can never be predicted with certainty and the lawsuit is still in its very preliminary stages, the Company does not anticipate that its ultimate outcome will have a material effect on its operations or financial condition.

## PART II OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS (continued)

The Company has been informed that it, along with several officers and a director, have been named as defendants in an action entitled Cohen v. Checkpoint Systems, Inc. et. al. (No. 95-1042) which was filed on March 9, 1995 in the United States District Court in New Jersey. This action, which seeks class certification, alleges generally that the defendants participated in a course of conduct to conceal adverse material information about the operating results and future business prospects of

the Company as a result of which the Company's stock price was artificially inflated during the period October 21, 1994 through March 7, 1995. Plaintiff alleges that the conduct set forth in the preceding sentence was in violation of certain federal securities laws. The Company believes that the plaintiffs' allegations are entirely without merit and intends to defend itself vigorously.

On March 2, 1995, as a result of a private complaint filed in Switzerland by Actron against three of its former employees who are now employees of the Company's Swiss subsidiary, Swiss authorities questioned two of these employees regarding alleged improper possession and/or use of confidential information and proprietary data allegedly belonging to Actron. In addition, Swiss authorities took possession of certain files from the homes of the employees questioned and from the office of the Company's Swiss subsidiary. The Company has not been advised that it is the subject of any legal proceeding in Switzerland. The Company believes that Actron's private complaint (and the resultant actions of the Swiss authorities) are directly related to the Company's litigation with Actron as described above.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY - HOLDERS

(a) An annual meeting of shareholders was held on April 27, 1995.

(c) Shareholders voted upon and approved the following three matters:

(1) The election of Roger D. Blackwell, Ph.D., Richard J. Censits and Jermain B. Porter as the Company's Class I directors to hold office until the 1998 Annual Shareholders Meeting. Shareholders voted as follows:

	For -----	Against -----
Roger D. Blackwell	8,904,256	280,206
Richard J. Censits	8,904,256	280,206
Jermain B. Porter	8,904,231	280,231

(2) To amend the Company's Stock Option Plan (1992) to increase the number of shares of common stock issuable thereunder from 3,000,000 to 4,500,000 shares. Shareholders voted as follows:

For -----	Against -----	Abstained -----	Unvoted -----
4,229,163	2,165,434	375,495	2,414,370

(3) To Amend and Restate the Company's Employee Stock Purchase Plan to extend the duration of the Plan and to make certain other changes to conform the Plan to the requirements of Rule 16b-3 promulgated under the Securities and Exchange Act of 1934. Shareholders voted as follows:

For -----	Against -----	Abstained -----	Unvoted -----
6,365,024	116,865	288,203	2,414,370

Item 5. OTHER INFORMATION

On February 1, 1995, the Company purchased Alarmex for approximately \$13.5 million (\$10 million in cash and the balance in 200,717 shares of Common Stock of Checkpoint). The Company financed the cash portion of the Alarmex Acquisition with the private placement of the Company's long-term notes.

On January 26, 1995, the Company issued and sold \$15,000,000 aggregate principal amount of 9.35% series B Notes (the "Notes") pursuant to a Note Agreement dated as of January 15, 1995, among the Company and Principal Mutual Life Insurance Company. The Notes are due January 30, 2003 and bear interest from the issue date (computed on the basis of a 360 day year.) Payable semi-annually on January 30 and July 30 of each year commencing July 30, 1995. Notes of \$3,000,000 are due on each January 30 commencing January 30, 1999 and ending January 30, 2002, with the remaining principal payable on January 30, 2003. The Notes are unsecured and rank pari passu with the Company's other funded debt. The notes contain certain covenants which the Company considers to be normal in transactions of this type.

On February 15, 1995, the Company entered into a new \$25,000,000 revolving Credit Agreement which replaces the Company's Revolving Credit Agreements that were in existence at year end. Proceeds of \$14,880,000 were used to pay off borrowings under an existing Revolving Credit Agreement with the Company's principal lending bank. At March 26, 1995, borrowing of \$23,000,000 under this credit agreement were outstanding with an average interest rate of 8.31%. This agreement expires on May 1, 1996. This loan agreement contains certain restrictive covenants which, among other things, requires maintenance of specified minimum financial ratios including debt to capitalization, interest coverage and tangible net worth. In addition, this agreement limits the Company's ability to pay dividends.

Item 6: EXHIBITS AND REPORTS ON FORM 8-K

During the Company's first quarter ended March 26, 1995, the Company filed the following reports: (i) Form 8-K filed on February 15, 1995 respecting the Company's acquisition of all of the issued and outstanding capital stock of Alarmex, Inc. ("Alarmex") and a related company, Bayport Controls, Inc.; (ii) Form 8-K/A filed on February 17, 1995 amending further the Company's Report on Form 8-K dated July 22, 1993, and as amended on Forms 8-K/A on August 19, 1993 and September 20, 1993 respectively; and (iii) Form 8-K/A filed on March 16, 1995, amending the Company's report on Form 8-K filed February 15, 1995 attaching required financial statements.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CHECKPOINT SYSTEMS, INC.  
/s/ Steven G. Selfridge

May 10, 1995

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May 10, 1995  
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Senior Vice President - Operations,  
Chief Financial Officer and Treasurer

/s/ Mitchell T. Codkind  
-----

Vice President, Corporate Controller  
and Chief Accounting Officer

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