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PARAGON TECHNOLOGIES INC
Form 10-Q
May 14, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For The Quarterly Period Ended March 31, 2003

Commission File No. 1-15729

PARAGON TECHNOLOGIES, INC.

(Exact Name Of Registrant As Specified In Its Charter)

Delaware

22-1643428

(State or Other Jurisdiction of
Incorporation or Organization)

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

600 Kuebler Road, Easton, PA

18040

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, Including Area Code:

610-252-3205

Indicate by checkmark 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 No

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Indicate by checkmark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No X
 --- ---

Number of shares of common stock, par value \$1.00 per share, outstanding as of April 30, 2003: 4,266,377.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Paragon Technologies, Inc. and Subsidiary
 Consolidated Balance Sheets
 March 31, 2003 and December 31, 2002
 (In Thousands, Except Share Data)

	(UNAUDITED) March 31, 2003	December 31, 2002
	-----	-----
Assets		

Current assets:		
Cash and cash equivalents.....	\$ 8,221	5,385
Restricted cash.....	969	865
Receivables:		
Trade (net of allowance for doubtful accounts of \$251 as of March 31, 2003 and \$221 as of December 31, 2002).....	3,085	4,285
Notes and other receivables.....	85	940
Total receivables.....	3,170	5,225
Costs and estimated earnings in excess of billings.....	197	128
Inventories:		
Raw materials.....	1,436	975
Work-in-process.....	83	109
Finished goods.....	174	291
Total inventories.....	1,693	1,375
	-----	-----

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Deferred income tax benefits.....	1,489	1,771
Prepaid expenses and other current assets.....	665	695
	-----	-----
Total current assets.....	16,404	15,444
	-----	-----
Property, plant and equipment, at cost:		
Land	-	27
Buildings and improvements.....	228	3,768
Machinery and equipment.....	3,775	4,291
	-----	-----
	4,003	8,086
Less: accumulated depreciation.....	2,364	5,877
	-----	-----
Net property, plant and equipment.....	1,639	2,209
	-----	-----
Investment in joint venture.....	1,487	1,325
Goodwill.....	17,657	17,657
Other assets, at cost less accumulated amortization of \$160 as of March 31, 2003 and \$143 as of December 31, 2002.....	51	68
	-----	-----
Total assets.....	\$ 37,238	36,703
	=====	=====

See accompanying notes to consolidated financial statements.

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Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Balance Sheets
March 31, 2003 and December 31, 2002
(In Thousands, Except Share Data)

	(UNAUDITED) March 31, 2003	December 31, 2002
	-----	-----
Liabilities and Stockholders' Equity		

Current liabilities:		
Current installments of long-term debt.....	\$ 1,725	1,437
Accounts payable.....	2,787	2,403
Customers' deposits and billings in excess of costs and estimated earnings	2,146	2,271
Accrued salaries, wages, and		

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commissions.....	415	544
Income taxes payable.....	634	154
Accrued royalties payable.....	110	114
Accrued product warranties.....	901	894
Accrued pension and retirement savings plan liabilities.....	22	170
Accrued restructuring expenses.....	188	216
Deferred gain on sale-leaseback.....	187	-
Accrued other liabilities.....	1,031	1,269
	-----	-----
Total current liabilities.....	10,146	9,472
	-----	-----
Long-term liabilities:		
Long-term debt, excluding current installments:		
Term loan.....	2,300	4,263
Subordinated notes payable.....	3,000	3,000
	-----	-----
Total long-term debt.....	5,300	7,263
Other long-term liability.....	357	401
Deferred gain on sale-leaseback.....	623	-
Deferred income taxes payable.....	1,828	1,713
Deferred compensation.....	29	25
	-----	-----
Total long-term liabilities.....	8,137	9,402
	-----	-----
Stockholders' equity:		
Common stock, \$1 par value; authorized 20,000,000 shares; issued and outstanding 4,266,377 shares as of March 31, 2003 and 4,256,098 shares as of December 31, 2002.....	4,266	4,256
Additional paid-in capital.....	7,393	7,313
Retained earnings.....	7,515	6,504
Accumulated other comprehensive loss.....	(219)	(244)
	-----	-----
Total stockholders' equity.....	18,955	17,829
	-----	-----
Total liabilities and stockholders' equity..	\$ 37,238	36,703
	=====	=====

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Statements of Operations (Unaudited)
For the Three Months Ended March 31, 2003 and 2002
(In Thousands, Except Share And Per Share Data)

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	Three Months Ended	
	March 31, 2003	March 31, 2002
Net sales.....	\$ 8,564	10,752
Cost of sales.....	6,360	7,863
Gross profit on sales.....	2,204	2,889
Selling, general and administrative expenses.....	1,997	2,341
Product development costs.....	163	66
Restructuring charges (credits).....	(170)	-
Interest expense.....	218	272
Interest income.....	(24)	(36)
Equity in income of joint venture.....	(162)	(6)
Other income, net.....	(1,496)	(321)
	526	2,316
Earnings before income taxes.....	1,678	573
Income tax expense.....	667	230
Net earnings.....	\$ 1,011	343
Basic earnings per share.....	\$.24	.08
Diluted earnings per share.....	\$.23	.08
Weighted average shares outstanding.....	4,256,098	4,222,885
Dilutive effect of stock options.....	62,067	101,255
Dilutive effect of phantom stock units.....	-	11,730
Weighted average shares outstanding assuming dilution.....	4,318,165	4,335,870

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Consolidated Statements of Comprehensive Income (Unaudited)
 For the Three Months Ended March 31, 2003 and 2002
 (In Thousands)

	Three Months Ended	
	March 31, 2003	March 2002
	-----	-----
Net earnings.....	\$ 1,011	343
Other comprehensive income (loss), net of tax:		
Interest rate swap:		
Change in fair value		
of derivative, net		
of tax.....	(8)	(10)
	-----	-----
Total other		
comprehensive		
income (loss).....	(8)	(10)
	-----	-----
Comprehensive		
income.....	\$ 1,003	333
	=====	=====

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Consolidated Statements of Cash Flows (Unaudited)
 For the Three Months Ended March 31, 2003 and 2002
 (In Thousands, Except Share Data)

	Three Months Ended	
	March 31,	March 31,
	-----	-----

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	2003	2002
	-----	-----
Cash flows from operating activities:		
Net earnings	\$ 1,011	343
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation of plant and equipment.....	147	160
Amortization of intangibles.....	17	10
Gain on disposition of property, plant and equipment, net of unearned profit on sale-leaseback.....	(1,363)	(108)
Amortization of deferred gain on sale- leaseback.....	(16)	-
Restructuring credit.....	(170)	-
Equity in income of joint venture.....	(162)	(6)
Issuance of common shares as interest payment on subordinated notes.....	90	-
Change in operating assets and liabilities:		
Receivables.....	2,055	(331)
Costs and estimated earnings in excess of billings.....	(69)	(1,093)
Inventories.....	(318)	334
Deferred income tax benefits.....	282	-
Prepaid expenses and other current assets.....	30	280
Accounts payable.....	384	176
Customers' deposits and billings in excess of costs and estimated earnings for completed and uncompleted contracts.....	(125)	602
Accrued salaries, wages, and commissions.....	(129)	(90)
Income taxes payable.....	480	6
Accrued royalties payable.....	(4)	3
Accrued pension and retirement savings plan liabilities.....	22	23
Accrued product warranties.....	7	80
Accrued restructuring expenses.....	(28)	(100)
Accrued other liabilities.....	(238)	42
Deferred income taxes payable	96	-
Deferred compensation.....	4	(130)
	-----	-----
Net cash provided by operating activities.....	2,003	201
	-----	-----
Cash flows from investing activities:		
Proceeds from the disposition of property, plant and equipment	2,734	198
Proceeds from the divestment of a joint venture.....	-	125
Additions to property, plant and equipment.....	(122)	(72)
	-----	-----
Net cash provided by investing activities.....	2,612	251
	-----	-----

See accompanying notes to consolidated financial statements.

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Item 1. Financial Statements (Continued)
 Paragon Technologies, Inc. and Subsidiary
 Consolidated Statements of Cash Flows (Unaudited) (Continued)
 For the Three Months Ended March 31, 2003 and 2002
 (In Thousands, Except Share Data)

	Three Months Ended	
	March 31, 2003	March 31, 2002
Cash flows from financing activities:		
Sale of common shares in connection with employee incentive stock option plan.....	-	33
Increase in restricted cash.....	(104)	-
Repayment of long-term debt.....	(1,675)	(578)
Net cash used by financing activities.....	(1,779)	(545)
Increase (decrease) in cash and cash equivalents.....	2,836	(93)
Cash and cash equivalents, beginning of period.....	5,385	6,114
Cash and cash equivalents, end of period.....	\$ 8,221	6,021
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest.....	\$ 114	809
Income taxes.....	\$ (1,061)	471

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Notes To Consolidated Financial Statements
 Three Months Ended March 31, 2003 and 2002

(1) The information contained in this Form 10-Q report is unaudited. In the

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opinion of the management of Paragon Technologies, Inc. ("Paragon" or the "Company"), the interim financial statements furnished reflect all adjustments and accruals that are necessary to present a fair statement of results for the interim periods. The financial statements include the accounts of the Company and Ermanco Incorporated ("Ermanco"), a wholly owned subsidiary company, after elimination of intercompany balances and transactions. Results for interim periods are not necessarily indicative of results expected for the fiscal year. This quarterly report should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company and the related Notes thereto appearing in our annual report on Form 10-K, as amended, for the year ended December 31, 2002, as filed with the Securities and Exchange Commission. Refer to the Company's Form 10-K for the year ended December 31, 2002 for more complete financial information.

(2) Restructuring

In 2001, the Company restructured its business operations, including curtailment of a defined benefit plan, and recorded a charge of \$1,538,000 for restructuring costs. The Company received approval from the Pension Benefit Guaranty Corporation in 2002 to terminate the defined benefit plan. In December 2002, the Company partially settled its obligations by making lump-sum distributions to those participants who elected that payment option and correspondingly recorded a restructuring credit of \$859,000. In February 2003, the Company settled its remaining obligations by purchasing annuities for those participants who elected that payment option and correspondingly recorded a restructuring credit of \$170,000.

A roll-forward of restructuring activities is as follows (in thousands):

	Beginning Balance January 1	Charge/ (Credit)	Cash Spending	Reclassification	Ending Balance March 31
2003.....	\$ 216	(170)	(28)	170	188
2002.....	\$ 494	-	(100)	-	394

The \$188,000 restructuring accrual at March 31, 2003 relates to severance and other personnel costs and professional fees for the 2001 restructuring that are still expected to be paid.

The amount reclassified out of the restructuring accrual was previously included in accrued pension and retirement savings plan liabilities.

(3) Warranty

The Company's products are warranted against defects in materials and workmanship for a specified period. The Company provides an accrual for estimated future warranty costs and potential product liability claims based upon a percentage of cost of sales and warranty experience.

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Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Notes To Consolidated Financial Statements
 Three Months Ended March 31, 2003 and 2002

A roll-forward of warranty activities is as follows (in thousands):

	Beginning Balance January 1	Additions Charged to Costs and Expenses (1)	Deductions (2)	Ending Balance March 31
	-----			-----
2003.....	\$ 894	74	(67)	901
2002.....	\$ 863	124	(44)	943

(4) Major Segments of Business

 Operating segments are defined as components of an enterprise in which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company identified such segments based on both management responsibility and types of products offered for sale. The Company operates in two major market segments.

SI Systems

 The Company's Easton, Pennsylvania operations (hereafter referred to as "SI Systems") is a specialized systems integrator supplying SI Systems' branded automated material handling systems to manufacturing, assembly, order selection, and distribution operations. The systems are marketed, designed, sold, installed, and serviced by its own staff or agents, generally as labor-saving devices to improve productivity, quality, and reduce costs. SI Systems also operates as a project manager in connection with the installation, integration, and service of its products generally utilizing subcontractors. SI Systems' branded products are utilized to automate the movement or selection of products and are often integrated with other automated equipment such as conveyors and robots. SI Systems' branded integrated material handling solutions involve both standard and specially designed components and include integration of non-proprietary automated handling technologies so as to provide turnkey solutions for its customers' unique material handling needs. SI Systems' staff develops and designs computer control programs required for the efficient operation of its systems and for optimizing distribution operations. SI Systems' branded products are sold to customers located primarily in North America, including the U.S. government.

Ermanco

 The Company's Spring Lake, Michigan operations (hereafter referred to as "Ermanco") is a manufacturer of Ermanco branded light to medium duty unit handling conveyor and sortation products, serving the material handling

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industry through a worldwide network of approximately 100 experienced material handling equipment distributors and licensees. Ermanco also provides complete conveyor systems for a variety of applications, including distribution and manufacture of computers and electronic products, utilizing primarily its own manufactured conveyor products, engineering services by its own staff or subcontractors, and subcontracted installation services. Ermanco supplies material handling systems and equipment to both national and international markets. Ermanco offers services ranging from the delivery of basic transportation conveyors to turnkey installations of complex, fully

Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Notes To Consolidated Financial Statements
 Three Months Ended March 31, 2003 and 2002

automated work-in-process production lines and distribution centers, utilizing sophisticated, custom-designed controls software. Many of Ermanco's sales are to distributors who have non-exclusive agreements with the Company.

 The Company's systems vary in configuration and capacity. Historically, system prices across the Company's product lines have ranged from \$100,000 to several million dollars per system. Systems and aftermarket sales by brand during the three months ended March 31, 2003 and 2002 are as follows (in thousands):

For the three months ended March 31, 2003:

	SI Systems	Ermanco	Total	% of Total Sales
	-----	-----	-----	-----
Systems sales.....	\$ 2,607	4,777	7,384	86.2%
Aftermarket sales.....	765	415	1,180	13.8%
	-----	-----	-----	-----
Total sales.....	\$ 3,372	5,192	8,564	100.0%
	=====	=====	=====	=====
As a % of total sales.....	39.4%	60.6%	100.0%	

For the three months ended March 31, 2002:

	SI Systems	Ermanco	Total	% of Total Sales
	-----	-----	-----	-----

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Systems sales.....	\$ 3,040	6,389	9,429	87.7%
Aftermarket sales.....	859	464	1,323	12.3%
	-----	-----	-----	-----
Total sales.....	\$ 3,899	6,853	10,752	100.0%
	=====	=====	=====	=====
As a % of total sales.....	36.3%	63.7%	100.0%	

The Company's products are sold worldwide through its own sales personnel, along with a network of independent distributors and licensees. Domestic and international sales by brand during the three months ended March 31, 2003 and 2002 are as follows (in thousands):

For the three months ended March 31, 2003:

	SI Systems	Ermanco	Total	% of Total Sales
	-----	-----	-----	-----
Domestic sales.....	\$ 3,283	4,966	8,249	96.3%
International sales.....	89	226	315	3.7%
	-----	-----	-----	-----
Total sales.....	\$ 3,372	5,192	8,564	100.0%
	=====	=====	=====	=====

For the three months ended March 31, 2002:

	SI Systems	Ermanco	Total	% of Total Sales
	-----	-----	-----	-----
Domestic sales.....	\$ 3,809	6,487	10,296	95.8%
International sales.....	90	366	456	4.2%
	-----	-----	-----	-----
Total sales.....	\$ 3,899	6,853	10,752	100.0%
	=====	=====	=====	=====

Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Notes To Consolidated Financial Statements
 Three Months Ended March 31, 2003 and 2002

The Company also engages in sales with the U.S. government, which is one of the Company's major customers. Sales to the U.S. government during the three months ended March 31, 2003 and 2002 are as follows (in thousands):

As a %

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of Total Sales

For the three months ended March 31, 2003.....	\$ 124	1.4%
For the three months ended March 31, 2002.....	1,641	15.3%

The Company identifies operating segments based on the types of products offered for sale as follows:

For the Three Months Ended March 31, 2003 (In Thousands):	SI Systems	Ermanco	Total
-----	-----	-----	-----
Sales.....	\$ 3,372	5,192	8,564
Earnings before interest expense, interest income, equity in income of joint venture, and income taxes.....	1,586	124	1,710
Total assets.....	8,620	28,618	37,238
Capital expenditures.....	26	96	122
Depreciation and amortization expense.....	47	100	147

For the Three Months Ended March 31, 2002 (In Thousands):	SI Systems	Ermanco	Total
-----	-----	-----	-----
Sales.....	\$ 3,899	6,853	10,752
Earnings before interest expense, interest income, equity in income of joint venture, and income taxes.....	697	106	803
Total assets.....	10,300	31,453	41,753
Capital expenditures.....	15	57	72
Depreciation and amortization expense.....	60	100	160

All of the Company's sales originate in the United States, and there are no long-lived assets existing outside the United States. International sales were \$315,000 and \$456,000 for the three months ended March 31, 2003 and 2002, respectively.

(5) New Accounting Pronouncements

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146") which addresses financial accounting and reporting for costs associated with exit or disposal activities. This statement nullifies Emerging Issues Task Force Issue 94-3. "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred and establishes that fair value is the objective for initial measurement of the liability. The Statement is effective for exit or disposal activities that are initiated after December 31, 2002.

Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Notes To Consolidated Financial Statements
 Three Months Ended March 31, 2003 and 2002

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others." This Interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002 and did not have an effect on the Company's financial statements. The disclosure requirements were effective for our 2002 financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," which addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. The Interpretation applies immediately to variable interests in variable interest entities entered into after January 31, 2003, and to variable interests in variable interest entities obtained after January 31, 2003. The application of this interpretation did not have an effect on the Company's financial statements.

(6) Other Comprehensive Loss

 The Company is exposed to market risk from changes in interest rates, and uses an interest rate swap to hedge this risk. The interest rate swap has a notional amount of \$4,025,000, expires in 2006, and is classified as a cash flow hedge of forecasted variable rate interest payments on a portion of the Company's term loan. Gains and losses on the interest rate swap are deferred in other comprehensive income (loss). The fair value of the interest rate swap at March 31, 2003 was a liability of approximately \$357,000. The Company estimates that approximately \$240,000 of the interest rate swap will be reclassified into earnings in the next 12 months.

	Gross -----	Tax Effect -----	Net ---
Accumulated other comprehensive loss at December 31, 2002.....	\$ (401)	(157)	(244)
Loss reclassified from other comprehensive income.....	58	25	33
Change in fair value of derivative.....	(14)	(6)	(8)

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Accumulated other comprehensive	---	---	---
loss at March 31, 2003.....	\$ (357)	(138)	(219)
	===	===	===

The Company uses derivative financial instruments as risk management tools and not for speculative purposes.

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Item 1. Financial Statements (Continued)

 Paragon Technologies, Inc. and Subsidiary
 Notes To Consolidated Financial Statements
 Three Months Ended March 31, 2003 and 2002

(7) Sale-Leaseback

 In February 2003, the Company sold its Easton, Pennsylvania facility. Significant terms of the agreement of sale include a sales price of \$2,925,000 and a leaseback of 25,000 square feet of office space for five years by the Company. The sale-leaseback resulted in a gain of \$2,189,000, of which \$1,363,000 of the gain was recorded in Other income in the Statement of Operations for the three months ended March 31, 2003. The remaining gain of \$826,000 is deferred and will be recognized as a reduction in rent expense over the term of the lease. During the three months ended March 31, 2003, \$16,000 of the deferred gain was recognized. Future contractual obligations over the remaining term of the lease are as follows:

2003.....	\$ 155,000
2004.....	211,000
2005.....	218,000
2006.....	224,000
2007.....	231,000
2008.....	34,000

Total.....	\$ 1,073,000
	=====

(8) Long-Term Debt

 The Company was in violation of the covenant related to its Funds Flow Coverage Ratio and received waivers from its principal bank for the covenant violation for the quarters ended June 30, 2002 and September 30, 2002. During August 2002, the Company entered into an arrangement to amend its credit agreements with its principal bank relative to future covenant

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requirements and the maintenance of a minimum cash balance covenant. In August 2002, the line of credit agreement was amended to extend the expiration date of the facility to June 30, 2003 and decrease the amount available under the facility. During November 2002, the Company prepaid, without penalty, \$1,200,000 of the term loan reducing the balance of the term loan to \$5,987,500 and placed \$1,150,000 in escrow with the Company's principal bank. Beginning with the quarter ended December 31, 2002, the escrow amount will be reduced by \$287,500 every quarter and applied to the principal portion of the term loan until the escrow amount reaches zero. The Company will resume making equal quarterly payments of \$575,000 plus accrued interest beginning with the quarter ended December 31, 2003. The Company also amended its credit agreements relative to future covenant requirements, the minimum cash balance covenant was reduced to \$4,000,000, and certain conditions were added regarding the sale of the Company's Easton facility. In November 2002, the line of credit agreement was also amended to decrease the amount available under the facility to \$1,000,000.

In accordance with the loan agreement in connection with the sale-leaseback, the Company prepaid, without penalty, \$1,387,500 of the term loan, reducing the balance of the term loan to \$4,312,500, and increased the escrow amount by \$387,500 to \$1,252,500. As of March 31, 2003, the balance of the term loan was \$4,025,000, and the escrow amount was \$969,000.

The Company remains prohibited from making any cash payments of subordinated debt and interest through the quarter ended September 30, 2003, and beginning with the quarter ended December 31, 2003 interest payments on the subordinated debt may be made in the form of cash if the Company is in full compliance with all the financial covenants set forth in the Loan Agreement, as amended, with the Company's principal bank. The Company issued 10,279 shares of common stock in the three months ended March 31, 2003. The Company intends to satisfy its quarterly interest obligations on subordinated debt with the issuance of the Company's common stock in the event the Company's principal bank does not grant waivers regarding the making of cash payments of interest on subordinated debt.

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Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements
Three Months Ended March 31, 2003 and 2002

(9) Stock-Based Compensation

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" ("FAS 148"), which amends SFAS No. 123, to provide alternative methods of accounting for a voluntary change to the fair value method of accounting for stock-based employee compensation. In addition, FAS 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements.

The Company grants stock options for a fixed number of shares to employees and non-employee directors with an exercise price equal to the fair value

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of the shares at the date of grant. The Company has elected to continue to account for its stock-based compensation plans under the guidelines of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense on options granted to employees for the stock option grants. The Company recognizes compensation expense on options granted to non-employee directors. To date, the effect of options granted to non-employee directors has been immaterial. Additional disclosure as required under the guidelines of SFAS No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), is included below. If the Company had elected to recognize stock-based compensation expense for options granted to employees based on the fair value of granted options at the grant date (as determined under FAS 123), net earnings (in thousands) and basic earnings per share for the three months ended March 31, 2003 and 2002, would have been as follows:

	For the Three Months Ended March 31, 2003	For the Three Months Ended March 31, 2002
	-----	-----
Net earnings, as reported.....	\$ 1,011	343
Deduct: total stock-based employee compensation determined under fair value method, net of related tax effects.....	(72)	(71)
	-----	-----
Pro forma net earnings.....	\$ 939	272
	=====	=====
Earnings per share:		
Basic-- as reported.....	\$.24	.08
	===	===
Basic-- pro forma.....	\$.22	.06
	===	===
Diluted-- as reported.....	\$.23	.08
	===	===
Diluted-- pro forma.....	\$.22	.06
	===	===

The above pro forma net earnings and basic and diluted earnings per share were computed using the fair value of granted options at the date of grant as calculated by the Black-Scholes option pricing method. No options were granted to employees during the three months ended March 31, 2003 and the year ended December 31, 2002.

The Company also grants phantom stock units to its directors as deferred compensation. Such awards are redeemable in cash or the Company's common stock at the director's option and are accounted for in accordance with APB Opinion No. 25 as stock appreciation rights. Expense for the phantom stock unit plan was \$0 and \$2,000 for the three months ended March 31, 2003 and 2002, respectively.

Item 2. Management's Discussion and Analysis of Financial Condition and

 Results of Operations

Liquidity and Capital Resources

The Company's cash and cash equivalents increased to \$8,221,000 at March 31, 2003 from \$5,385,000 at December 31, 2002. The increase resulted from cash provided by operating activities totaling \$2,003,000, and proceeds of \$2,734,000 from the disposition of property, plant and equipment. Partially offsetting the increase in cash and cash equivalents from these sources was the repayment of long-term debt of \$1,675,000, purchases of capital equipment of \$122,000, and an increase of \$104,000 in restricted cash as an escrow deposit on current installments of long-term debt. Funds provided by operating activities during the three months ended March 31, 2002 were \$201,000.

Acquisition of Ermanco Incorporated

On September 30, 1999, the Company acquired all of the outstanding common stock of Ermanco. Under the terms of the Stock Purchase Agreement, the Company acquired all of the outstanding common stock of Ermanco for a purchase price of \$22,801,000 consisting of \$15,301,000 in cash, \$3,000,000 in promissory notes payable to the fourteen stockholders of Ermanco, and 481,284 shares of the Company's common stock with a value of \$4,500,000 based on the average closing price of \$9.35 of the Company's common stock for the five trading days immediately preceding the date of the Stock Purchase Agreement, August 6, 1999.

In order to complete the Ermanco acquisition, the Company obtained financing from its principal bank. The Company entered into a line of credit facility which may not exceed the lesser of \$1,000,000, as amended, or an amount based on a borrowing base formula tied principally to accounts receivable, inventory, fair market value of the Company's property and plant, and liquidation value of equipment. This amount will be reduced by the unpaid principal balance of the term loan described below. The line of credit facility is to be used primarily for working capital purposes. As of March 31, 2003, the Company did not have any borrowings under the line of credit facility, and the facility expires effective June 30, 2003. The line of credit facility is not critical to the Company's operations.

The Company financed \$14,000,000 of the acquisition through a seven-year term loan from its bank. During the first two years of the term loan, the Company was obligated to repay equal quarterly payments of \$312,500 plus accrued interest. After September 30, 2001, the Company commenced making equal quarterly payments of \$575,000 plus interest, continuing until the loan is fully repaid. In connection with an amendment entered into in November 2002, the Company prepaid, without penalty, \$1,200,000 of the term loan reducing the balance of the term loan to \$5,987,500 and placed \$1,150,000 in escrow with the Company's principal bank. Beginning with the quarter ended December 31, 2002, the escrow amount will be reduced by \$287,500 every quarter and applied to the principal portion of the term loan until the escrow amount reaches zero. The Company will resume making quarterly payments of \$575,000 plus accrued interest beginning with the quarter ended December 31, 2003. The interest rate on the term loan is variable at a rate equal to the three-month LIBOR Market Index Rate plus 3%, which was 4.29% as of March 31, 2003. The Company also entered into an interest rate swap agreement for a portion of the term loan to hedge the floating interest rate. At March 31, 2003, the notional amount of the seven-year interest rate swap was \$4,025,000, and it fixes interest at a rate of 9.38%. As of March

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31, 2003, the liability associated with the fair value of the cash flow hedge was approximately \$357,000.

In February 2003, the Company sold its Easton, Pennsylvania facility. Significant terms of the agreement of sale include a sales price of \$2,925,000 and also a leaseback of 25,000 square feet of office space for five years by the Company. In accordance with the loan agreement in connection with the sale, the Company prepaid, without penalty, \$1,387,500 of the term loan, reducing the balance of the term loan to \$4,312,500, and increased the escrow amount by \$387,500 to \$1,252,500. As of March 31, 2003, the balance of the term loan was \$4,025,000, and the escrow amount was \$969,000.

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Item 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations

Acquisition of Ermanco Incorporated (Continued)

To obtain the line of credit and term loan, the Company granted the bank a security interest in all personal property, including, without limitation, all accounts, deposits, documents, equipment, fixtures, general intangibles, goods, instruments, inventory, letters of credit, money, securities, and a first mortgage on all real estate. The line of credit facility and term loan contain various restrictive covenants relating to additional indebtedness, asset acquisitions or dispositions, investments, guarantees, payment of dividends, maintenance of certain financial ratios, and as amended, maintenance of a minimum cash balance covenant of \$4,000,000, inclusive of restricted cash. The Company was in compliance with all covenants as of March 31, 2003.

On September 30, 1999, the Company also issued promissory notes to fourteen stockholders of Ermanco, two of which are directors of the Company (Messrs. Shulman and Kirschner), in the aggregate principal amount of \$3,000,000. The notes have a term of seven years and bear interest at an annual rate of 10% through September 30, 2002, 12% from October 1, 2002 through September 30, 2004, and 14% from October 1, 2004 through September 30, 2006. The weighted average interest rate on the promissory notes is 11.714% over the term of the notes. Interest shall be payable quarterly, in cash or under certain conditions, in the Company's common stock upon approval of the Company's Board of Directors. The promissory notes may be prepaid prior to the end of the seven-year term provided that there is no debt outstanding under the Company's line of credit facility and term loan. Since July 1, 2001 through September 30, 2003, the Company has been and will be prohibited from making any cash payments on subordinated debt and interest. However, the bank waived the restriction from paying interest on the subordinated debt in the form of cash for the fourth quarter ended December 31, 2001 and the quarter ended March 31, 2002. Beginning with the quarter ended December 31, 2003, interest payments on the subordinated debt may be made in the form of cash if the Company is in full compliance with all the financial covenants set forth in the Loan Agreement, as amended, with the Company's principal bank. The Company intends to satisfy its quarterly interest obligations with the issuance of the Company's common stock in the event the Company's principal bank does not grant waivers regarding the making of cash payments of interest on subordinated debt.

Commitments and Contingencies

Ermanco's operations are located in a 94,000 square foot steel building in Spring Lake, Michigan. The building is leased from a limited liability company that is affiliated with the Company through a common director and officer of the Company, Messrs. Shulman and Kirschner. The leasing agreement requires fixed monthly rentals of \$32,858 (with annual increases of 2.5%), which includes a variable portion based on the lessor's borrowing rate and the unpaid mortgage balance. The terms of the lease require the payment of all taxes, insurance, and other ownership related costs of the property. The lease expires on September 30, 2004.

The current collective bargaining agreement for manufacturing employees at the Company's Spring Lake, Michigan facility expires on May 31, 2003. The Company has opened negotiations with the collective bargaining group and anticipates a successful conclusion.

In connection with the February 2003 sale of the Company's Easton, Pennsylvania facility, the Company entered into a leaseback arrangement for 25,000 square feet of office space. The leasing agreement requires fixed monthly rentals of \$17,188 (with annual increases of 3%). The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The lease expires on February 21, 2008.

The Company also leases certain automobiles and office equipment, office space, computer equipment, and software under various operating leases with terms extending through September 2007.

Item 2. Management's Discussion and Analysis of Financial Condition and

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Commitments and Contingencies (Continued)

On March 4, 1996, SI/BAKER established a \$3,000,000 line of credit facility (the "Facility") with its principal bank (the "bank"). Under the terms of the Facility, SI/BAKER's parent companies, Paragon Technologies, Inc. and McKesson Automation Systems Inc., have each provided a limited guarantee and surety in an amount not to exceed \$1,000,000 for a combined guarantee of \$2,000,000 to the bank for the payment and performance of the related note, including any further renewals or modifications of the facility. As of March 31, 2003, SI/BAKER did not have any borrowings under the Facility, and the Facility expires effective June 30, 2003.

Other Liquidity and Capital Resource Matters

The Company anticipates that its financial resources, consisting of cash generated from operations, will be adequate to satisfy its future cash requirements through the next year. If the Company is unable to meet the terms of its financial covenants relating to its outstanding indebtedness and is unable to receive a waiver from its lender, a default could result under the Company's borrowing agreements. A default may result in the acceleration of the Company's indebtedness and cause the Company's debt to become immediately due and payable. If acceleration occurs, the Company may not be able to repay its debt, and the Company may not be able to borrow sufficient additional funds to refinance such debt. Sales volume, as well as cash liquidity, may experience

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fluctuations due to the unpredictability of future contract sales and the dependence upon a limited number of large contracts with a limited number of customers.

The Company plans to consider all strategic alternatives to increase shareholder value, including expansion opportunities as they arise, although the ongoing operating results of the Company, the restrictive covenants associated with the financing obtained from the Company's principal bank, the economics of the expansion, and the circumstances justifying the expansion will be key factors in determining the amount of resources the Company will devote to further expansion.

Results Of Operations

Three Months Ended March 31, 2003 Versus Three Months Ended March 31, 2002

The Company's net earnings for the three months ended March 31, 2003 were \$1,011,000 compared to net earnings of \$343,000 for the three months ended March 31, 2002. Contributing to the net earnings for the three months ended March 31, 2003 was other income from the sale-leaseback of the Company's Easton, Pennsylvania facility of \$1,363,000, and a restructuring credit of \$170,000 pertaining to the final settlement of the remaining pension obligations associated with the Company's terminated pension plan. Contributing to net earnings for the three months ended March 31, 2002 was other income from the short-term licensing of certain real property of \$150,000, and a gain on the sale of excess fixed assets of \$108,000.

Net Sales and Gross Profit on Sales

Net sales of \$8,564,000 for the three months ended March 31, 2003 decreased 20.3% compared to net sales of \$10,752,000 for the three months ended March 31, 2002. The sales decrease of \$2,188,000 was primarily attributable to a smaller backlog of orders entering fiscal 2003 (\$6,924,000 versus a \$13,342,000 backlog beginning fiscal 2002) associated with the economic slowdown. The sales decrease was comprised of a decrease in Ermanco's branded sales of \$1,661,000 and a decrease in SI Systems' branded sales of \$527,000 for the three months ended March 31, 2003, when compared to the three months ended March 31, 2002. The Company's business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Various external factors affect the customers' decision-making process on expanding and upgrading their

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Item 2. Management's Discussion and Analysis of Financial Condition and

Results of Operations

Results Of Operations

Three Months Ended March 31, 2003 Versus Three Months Ended March 31, 2002

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Net Sales and Gross Profit on Sales (Continued)

current production or distribution sites. The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Fluctuations in the Company's sales and earnings occur with increases or decreases in major installations, since the Company recognizes sales on a percentage of completion basis for its system contracts.

Gross profit, as a percentage of sales, was 25.7% for the three months ended March 31, 2003 compared to 26.9% for the three months ended March 31, 2002. Gross profit, as a percentage of sales, for the three months ended March 31, 2003 was favorably impacted by approximately 1% due to a reduction in overhead costs during the first quarter of 2003 as compared to the first quarter of 2002. Gross profit, as a percentage of sales, for the three months ended March 31, 2002 was favorably impacted by approximately 2% as a result of the reversal of previously established contract accruals due to changes in cost estimates.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of \$1,997,000 were lower by \$344,000 for the three months ended March 31, 2003 than in the three months ended March 31, 2002. The decrease of \$344,000 was comprised of cost savings of approximately \$360,000 attributable to the Company's restructuring of its business operations in the prior fiscal year and an emphasis on cost reduction. Also contributing to the higher selling, general and administrative expenses in the three months ended March 31, 2002, were approximately \$70,000 in professional fees primarily associated with enhancing operational efficiency. Partially offsetting the aforementioned favorable variance was approximately \$125,000 in marketing expenses associated with the Company's participation in a biannual industry trade show in the first quarter of 2003.

Product Development Costs

Product development costs, including patent expense, of \$163,000 were higher by \$97,000 for the three months ended March 31, 2003 than in the three months ended March 31, 2002. Development programs in the three months ended March 31, 2003 included the new NBA-23(TM) narrow belt accumulation conveyor, computer software for warehousing and distribution center operations, and improvements to the Company's Order Picking, Fulfillment, and Replenishment systems. Development programs in the three months ended March 31, 2002 were aimed at enhancements to the Company's sortation and accumulation conveyor technologies.

Restructuring Charges (Credits)

In 2001, the Company restructured its business operations, including curtailment of a detailed benefit plan, and recorded a charge of \$1,538,000 for restructuring costs. The Company received approval from the Pension Benefit Guaranty Corporation in 2002 to terminate the defined benefit plan. In December 2002, the Company partially settled its obligations by making lump-sum distributions to those participants who elected that payment option and correspondingly recorded a restructuring credit of \$859,000 during the fourth quarter of 2002. In February 2003, the Company settled its remaining obligations by purchasing annuities for those participants who elected that payment option and correspondingly recorded a restructuring credit of \$170,000 during the three months ended March 31, 2003.

Item 2. Management's Discussion and Analysis of Financial Condition and

 Results of Operations

Results Of Operations

Three Months Ended March 31, 2003 Versus Three Months Ended March 31, 2002

(Continued)

Interest Expense and Interest Income

Interest expense of \$218,000 was lower by \$54,000 for the three months ended March 31, 2003 than for the three months ended March 31, 2002. The decrease in interest expense was attributable to the reduced level of term debt due to principal payments and lower interest rates.

Interest income of \$24,000 for the three months ended March 31, 2003 decreased by \$12,000, when compared to the three months ended March 31, 2002. The decrease in interest income was attributable to a reduction in the level of interest rates pertaining to short-term investments.

Equity in Income of Joint Venture

Equity in income of joint venture represents the Company's proportionate share (50%) of its investment in the SI/BAKER joint venture that is being accounted for under the equity method. The favorable variance of \$156,000 for the three months ended March 31, 2003 in the equity in income of the SI/BAKER joint venture was primarily due to its sales of \$4,169,000 as compared to the three months ended March 31, 2002 of \$2,421,000, plus a reduction of \$237,000 in product development expenses. The increase in sales for the three months ended March 31, 2003 compared to the three months ended March 31, 2002 was due to a significant amount of progress made on orders received during the first quarter of 2003. Partially offsetting the favorable variance was SI/BAKER's increases of (1) \$36,000 in selling, general and administrative expenses, and (2) \$70,000 in revenue-based royalty costs due to the parent companies.

Other Income, Net

The favorable variance of \$1,175,000 in other income, net for the three months ended March 31, 2003 as compared to the three months ended March 31, 2002 was primarily attributable to the gain on the sale-leaseback of the Company's Easton, Pennsylvania facility of approximately \$1,363,000, and an increase in revenue-based royalty income from the Company's SI/BAKER joint venture of \$35,000. Partially offsetting the favorable variance in other income, net was the prior year comparable period containing income from the short-term licensing of certain real property relating to the Company's Easton, Pennsylvania facility of \$150,000, and a gain on the sale of excess fixed assets associated with the Company's Easton, Pennsylvania facility of \$108,000.

Income Tax Expense

The Company recognized income tax expense of \$667,000 during the three

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months ended March 31, 2003, compared to income tax expense of \$230,000 in the comparable prior year period. Income tax expense was generally recorded at statutory federal and state tax rates.

Backlog of Orders

The total backlog of orders at March 31, 2003 was approximately \$10,100,000. During the three months ended March 31, 2003, the Company received orders totaling approximately \$11,740,000.

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Item 2. Management's Discussion and Analysis of Financial Condition and ----- Results of Operations -----

Cautionary Statement

Certain statements contained herein are not based on historical fact and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission rules, regulations, and releases. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. Among other things, they regard the Company's acquisition activities, earnings, liquidity, financial condition, and certain operational matters. Words or phrases denoting the anticipated results of future events, such as "anticipate," "believe," "estimate," "expect," "may," "will," "will likely," "are expected to," "will continue," "should," "project," and similar expressions that denote uncertainty, are intended to identify such forward-looking statements. The Company's actual results, performance, or achievements could differ materially from the results expressed in, or implied by, such "forward-looking statements": (1) as a result of risks and uncertainties identified in connection with those forward-looking statements, including those factors identified herein, and in the Company's other publicly filed reports; (2) as a result of risks associated with the Company's restructuring, including the failure to achieve anticipated operating savings, and the possibility that the restructuring charges will be greater than anticipated; (3) as a result of factors over which the Company has no control, including the strength of domestic and foreign economies, sales growth, competition, and certain costs increases; or (4) if the factors on which the Company's conclusions are based do not conform to the Company's expectations.

Quantitative and Qualitative Disclosures

The Company's primary market risk exposure is from changes in interest rates. The Company's policy is to manage interest rate exposure through the use of a combination of fixed and floating rate debt instruments, and since September 30, 1999, an interest rate swap agreement. Generally, the Company seeks to match the terms of its debt with its purpose. The Company has available a variable rate line of credit facility to provide working capital for operations. On September 30, 1999, the Company entered into an interest rate

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swap agreement for 50% of its new term loan from its principal bank to effectively convert half of the term loan from a variable rate note to a fixed rate note. A standard interest rate swap agreement involves the payment of a fixed rate times a notional amount by one party in exchange for a floating rate times the same notional amount from another party. The counterpart to the swap agreement is the Company's principal bank.

The Company does not believe that its exposures to interest rate risk or foreign currency exchange risk, risks from commodity prices, equity prices and other market changes that affect market risk sensitive instruments, including the interest rate swap agreement, are material to its results of operations.

Item 4. Controls and Procedures

(a) Evaluation Of Disclosure Controls And Procedures

The Company's Chief Executive Officer and its Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(c) and 15-d-14(c)) as of a date within 90 days of filing date of the quarterly report (the "Evaluation Date"), have concluded that as of the Evaluation Date, the Company's disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company would be made known to them by others within the Company, particularly during the period in which this quarterly report was being prepared.

(b) Changes in Internal Controls

There were no significant changes in the Company's internal controls or in other factors that could significantly affect the Company's internal controls and procedures subsequent to the Evaluation Date, nor any significant deficiencies or material weaknesses in such internal controls and procedures requiring corrective actions.

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PART II -- OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 10.27 Agreement of Sale between J. G. Petrucci Company, Inc. or its Assigns and Paragon Technologies, Inc. dated November 8, 2002 (filed herewith).
- 10.28 Amendment I to Agreement of Sale between J. G. Petrucci Company, Inc. and Paragon Technologies, Inc. dated January 2, 2003 (filed herewith).
- 10.29 Amendment II to Agreement of Sales between Triple Net Investments XIII, L.P. and Paragon Technologies, Inc. dated January 13, 2003 (filed herewith).

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- 10.30 Amendment III to Agreement of Sale between Triple Net Investments, XIII, L.P. and Paragon Technologies, Inc. dated January 17, 2003 (filed herewith).
- 10.31 Lease Agreement between Triple Net Investments XIII, L.P. and Paragon Technologies, Inc. dated February 21, 2003 (filed herewith).
- 99 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by William R. Johnson, President and CEO, and Ronald J. Semanick, Chief Financial Officer and Vice President - Finance and Treasurer (filed herewith).

(b) The following report on Form 8-K was filed during the quarter ended March 31, 2003:

On February 21, 2003, Paragon Technologies, Inc. completed the sale of its Easton, Pennsylvania building to Triple Net Investments XIII, L.P. Significant terms of the agreement of sale include a sales price of \$2,925,000 and also a leaseback of approximately 25,000 square feet of office space for five years by Paragon Technologies. A Form 8-K was filed on March 3, 2003 regarding this sale-leaseback transaction.

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Paragon Technologies, Inc. and Subsidiary

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.

PARAGON TECHNOLOGIES, INC.

/S/ William R. Johnson

William R. Johnson
President & CEO

/S/ Ronald J. Semanick

Ronald J. Semanick

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Chief Financial Officer

Dated: May 14, 2003

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SECTION 302 CERTIFICATION

I, William R. Johnson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paragon Technologies, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of

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internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

- 6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ William R. Johnson

William R. Johnson
President and CEO

SECTION 302 CERTIFICATION

I, Ronald J. Semanick, certify that:

- 1. I have reviewed this quarterly report on Form 10-Q of Paragon Technologies, Inc.;
- 2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this

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quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 14, 2003

/s/ Ronald J. Semanick

Ronald J. Semanick
Chief Financial Officer, and
Vice President - Finance and Treasurer