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PARAGON TECHNOLOGIES INC

Form 8-K

October 01, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

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

Date of Report (Date of earliest event reported): September 19, 2003

PARAGON TECHNOLOGIES, INC.
(Exact name of issuer as specified in charter)

DELAWARE	1-15729	22-1643428
State or Other Jurisdiction	(Commission	(I.R.S. Employer
of Incorporation or	File	Identification
Organization)	Number)	Number)

600 KUEBLER ROAD
EASTON, PENNSYLVANIA 18040
(Address of principal executive offices)

(610) 252-3205
(Registrant's telephone number, including area code)

Item 2. Acquisition and Disposition of Assets

As previously reported, on September 19, 2003 (the "Closing Date"), Paragon Technologies, Inc. ("Paragon") sold (the "Sale") its entire ownership interest in SI/BAKER, INC. ("SI/BAKER"), a Delaware corporation and joint venture of Paragon and McKesson Automation Systems Inc., a Louisiana corporation formerly known as Automated Prescription Systems, Inc. ("McKesson"), to McKesson pursuant to the terms of that certain Stock Purchase Agreement dated September 19, 2003

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by and among Paragon, McKesson and SI/BAKER (the "Agreement"). Pursuant to the Agreement, Paragon (a) sold 100 shares of common stock of SI/BAKER to McKesson and (b) made certain other covenants, in consideration for (x) the payment by McKesson to Paragon of \$5,600,000 in cash and (y) certain other covenants of McKesson and SI/BAKER. The terms of the Sale did not provide for any contingent consideration payable to Paragon. The amount of consideration was determined by arms-length negotiations between Paragon and McKesson. Immediately prior to the Sale, (a) 1 of the 2 members of the board of directors of SI/BAKER was also a director and officer of Paragon, (b) one of the officers of SI/BAKER was an officer of Paragon, and (c) Paragon was a major stockholder of SI/BAKER, holding 50% of SI/BAKER's outstanding voting equity. Additionally, Paragon has a business relationship with SI/BAKER, as certain of Paragon's products and services are offered to SI/BAKER and have been used in SI/BAKER products sold to SI/BAKER's customers. Prior to the Sale, there were no other material relationships between Paragon and its affiliates, and SI/BAKER.

Pursuant to the Agreement, (a) the Investment Agreement dated January 27, 1993, as amended, between Paragon and McKesson governing the joint venture relationship was terminated as of the Closing Date; (b) Paragon and SI/BAKER entered into a Master Purchase Agreement (the "Supply Agreement") whereby Paragon will supply automated dispensing products and related software services to SI/BAKER at agreed upon prices and pursuant to agreed upon terms and conditions; and (c) Paragon granted McKesson a license to certain intellectual property.

Pursuant to the Agreement and as more specifically set forth therein, Paragon agreed, for a period of three (3) years following the Closing Date, not to (a) engage in the manufacture, use or sale of "integrated prescription fulfillment systems" (as defined in the Agreement, the "Business"), (b) provide any person with any information with respect to the Business or otherwise developing products or services that would compete with the Business, (c) own any interest in, manage or lend money to, any person or enterprise that owns or is engaged in the Business, (d) request or advise any customers of SI/BAKER to curtail their dealings with SI/BAKER or engage in any trade disparagement with respect to McKesson or SI/BAKER, (e) refer any customers of Paragon to, or otherwise endorse any competitor of, SI/BAKER with respect to the Business, and (f) solicit for employment or hire any employee of SI/BAKER. Each of SI/BAKER and McKesson agreed to certain non-competition and non-solicitation covenants for the benefit of Paragon.

Paragon used the proceeds of the Sale to prepay (a) \$1,225,000 of its outstanding term debt with its principal bank, (b) \$1,500,000 of its outstanding subordinated debt, thereby eliminating Paragon's outstanding long-term debt, and (c) \$330,000 of liability associated with the fair value of the interest rate swap agreement for the term debt with Paragon's principal bank.

The Agreement is filed as an exhibit to this Current Report on Form 8-K and is incorporated herein by reference. The brief summary of certain of the material provisions of the Agreement does not purport to be complete and is qualified in its entirety by reference to the Agreement filed as an exhibit hereto.

Item 7. Financial Statements and Exhibits

(b) Pro Forma Financial Information

(c) Exhibits-

2.2 Stock Purchase Agreement by and among McKesson Automation Systems Inc., Paragon Technologies, Inc., and SI/BAKER, INC. dated September 19, 2003.

99.1 News Release dated September 22, 2003

* Certain exhibits and the schedules to Exhibits 2.2 are not

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filed herewith pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule or exhibit will be furnished supplementally to the Securities and Exchange Commission upon request.

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PARAGON TECHNOLOGIES, INC.
SELECTED UNAUDITED PRO FORMA FINANCIAL DATA

The following unaudited pro forma condensed consolidated balance sheet includes the historical condensed balance sheet of Paragon Technologies, Inc. ("Paragon" or the "Company") at June 30, 2003 and the pro forma adjustments to reflect the sale of Paragon's Investment in the SI/BAKER, INC. ("SI/BAKER") joint venture as if the transaction occurred on June 30, 2003.

The pro forma information should be read in conjunction with the Company's historical financial statements previously filed with the U.S. Securities and Exchange Commission.

PARAGON TECHNOLOGIES, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
AS OF JUNE 30, 2003
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Historical Consolidated 6/30/2003 -----	Pro Forma Adjustments -----	
Assets			

Current assets:			
Cash and cash equivalents	\$ 4,501	-	(A) (B) (C)
Receivables	5,985		
Costs and estimated earnings in excess of billings	666		
Inventories	1,512		
Deferred income tax benefits	1,410		
Prepaid expenses and other current assets	510		

Total current assets	14,584	-	

Property, plant and equipment, at cost	4,022		
Less: accumulated depreciation	2,498		

Net property, plant and equipment	1,524	-	

Investment in joint venture	576	(576)	(A)
Goodwill	17,657		
Other assets	28	(17)	(C)

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Total assets \$34,369 (593)
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PARAGON TECHNOLOGIES, INC.
 UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
 AS OF JUNE 30, 2003
 (IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	Historical Consolidated 6/30/2003 -----	Pro Forma Adjustments -----		
<u>Liabilities and Stockholders' Equity</u>				

Current liabilities:				
Current installments of long-term debt	\$ 1,150	(1,150)		(C)
Accounts payable	3,217			
Customers' deposits and billings in excess of costs and estimated earnings	1,817			
Accrued salaries, wages, and commissions	463			
Income taxes payable	445	26		(C)
Accrued royalties payable	110			
Accrued product warranties	946			
Accrued pension and retirement savings plan liabilities	42			
Accrued restructuring expenses	182			
Deferred gain on sale-leaseback	165			
Accrued other liabilities	1,084	(84)		(C)
	-----	-----		
Total current liabilities	9,621	(1,208)		
	-----	-----		
Long-term liabilities:				
Long-term debt, excluding current installments:				
Term loan	575	(575)		(C)
Subordinated notes payable	2,000	(1,720)		(C)
	-----	-----		
Total long-term debt	2,575	(2,295)		
Other long-term liability	335			
Deferred gain on sale-leaseback	605			
Deferred income taxes payable	1,595	(184)		(B)
Deferred compensation	33			
	-----	-----		
Total long-term liabilities	5,143	(2,479)		
	-----	-----		
Stockholders' equity:				
Common stock	4,277			
Additional paid-in capital	7,583			
Retained earnings	7,949	3,094		(A) (B) (C)

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Accumulated other comprehensive loss	(204)	
	-----	-----
Total stockholders' equity	19,605	3,094
	-----	-----
Total liabilities and stockholders' equity	\$ 34,369	(593)
	=====	=====

NOTES:

- (A) To reflect the sale of Paragon's Investment in the SI/BAKER joint venture. The selling price was \$5,600,000, the pre-tax gain on the sale was \$4,974,000, and the after-tax gain on the sale was \$3,053,000.
- (B) To reflect income taxes expensed of \$1,921,000 and income taxes paid of \$2,105,000 at an effective income tax rate of 38.62% relating to the sale of Paragon's Investment in the SI/BAKER joint venture.
- (C) To reflect the long-term debt reduction of senior and subordinated debt with cash available of \$3,445,000, net of taxes paid, relating to the sale of Paragon's Investment in the SI/BAKER joint venture. The adjustment includes the elimination of deferred debt fees of \$17,000 associated with the senior debt and the reversal of previously accrued interest of \$84,000 on the subordinated notes payable, and the related impact on income taxes at an effective rate of 38.62%.

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PARAGON TECHNOLOGIES, INC.
SELECTED UNAUDITED PRO FORMA FINANCIAL DATA

The following selected unaudited pro forma consolidated statements of operations data gives effect to the sale of Paragon Technologies, Inc.'s ("Paragon" or the "Company") Investment in the SI/BAKER, INC. ("SI/BAKER") joint venture as if the transaction occurred at the beginning of the 2002 fiscal year and at the beginning of the 2003 fiscal year. The pro forma data presented below should be read in conjunction with the Company's financial statements previously filed with the U.S. Securities and Exchange Commission and pro forma condensed consolidated financial information and accompanying assumptions previously included elsewhere herein. Such data is not necessarily indicative of the results of operations that would have been achieved had the transaction described above occurred on the date indicated or that may be expected to occur in the future as a result of such transaction.

	Paragon Technologies, Inc. Unaudited Pro Forma Condensed Consolidated Statement Of Operations For The Year Ended December 31, 2002 (In Thousands, Except Share And Per Share Data)			Paragon Unaudited Pro Forma Condensed Consolidated Statement Of Operations For The Six Months Ended 6/30/2003 (In Thousands, Except Share And Per Share Data)
	Historical Consolidated 12/31/2002 -----	(1) Pro Forma Adjustments -----	Pro Forma Consolidated Results -----	Historical Consolidated 6/30/2003 -----
Net sales	\$ 38,224		38,224	\$ 19,547
Cost of sales	28,951		28,951	14,419
Gross profit on sales	9,273	-	9,273	5,128
Selling, general and administrative expenses	8,558		8,558	3,871
Productive development costs	358		358	302
Restructuring charges (credits)	(859)		(859)	(170)
Interest expense	1,046	(22) (F)	1,024	369
Interest income	(112)		(112)	(46)
Equity in income of joint venture	(58)	58 (D)	-	(251)
Other income, net	(590)	167 (E)	(423)	(1,620)
	8,343	203	8,546	2,455
Earnings before income taxes	930	(203)	727	2,673
Income tax expense	267	(78) (G)	189	1,045
Net earnings	\$ 663	(125)	538	\$ 1,628
Basic earnings per share	\$ 0.16		0.13	\$ 0.38
Diluted earnings per				

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share	\$ 0.15 =====		0.13 =====	\$ 0.38 =====
Weighted average shares outstanding	4,231,878		4,231,878	4,262,213
Dilutive effect of stock options	64,706		64,706	78,021
Dilutive effect of phantom stock units	3,609		3,609	-
Weighted average shares outstanding assuming dilution	4,300,193 =====	-	4,300,193 =====	4,340,234 =====

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NOTES:

- (1) The following sale of the Investment in the SI/BAKER joint venture adjustments reflect results of operations as if the sale of the Investment in the SI/BAKER joint venture, which was concluded on September 19, 2003, had occurred on January 1, 2002 and January 1, 2003. The results of operations are derived from the Company's historical statement of operations for the year ended December 31, 2002 and the Company's historical statement of operations for the six months ended June 30, 2003.
- (D) To reflect the elimination of Paragon's equity in income of the SI/BAKER joint venture representing the Company's proportionate share (50%) of its Investment in the SI/BAKER joint venture that is being accounted for under the equity method.
- (E) To reflect the elimination of royalty income from the SI/BAKER joint venture. Paragon received royalty income from the SI/BAKER joint venture based on 2% of SI/BAKER's sales.
- (F) To reflect the reduction of interest expense on senior and subordinated debt as a result of the long-term debt reduction of senior and subordinated debt with cash available of \$3,445,000, net of taxes paid, from the sale of Paragon's Investment in the SI/BAKER joint venture. The adjustment includes the amortization of deferred debt fees and the accounting for the interest rate swap agreement associated with the term debt with the Company principal bank.
- (G) To reflect the adjustment to record income tax expense at an effective rate of 38.62%.

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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 hereunto duly authorized.

PARAGON TECNOLOGIES, INC.

/s/ William R. Johnson

William R. Johnson
President and Chief Executive Officer

Dated: October 1, 2003

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EXHIBIT INDEX

Exhibit No.

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