PARAGON TECHNOLOGIES INC
Form 10-Q
May 14, 2001

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, 2001

Commission File No. 1-15729

PARAGON TECHNOLOGIES, INC.
(Exact Name Of Registrant As Specified In Its Charter)

Pennsylvania	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 X No ___

Number of shares of common stock, par value $1.00 per share, outstanding as of March 31, 2001: 4,210,959.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Paragon Technologies, Inc. and Subsidiary
Consolidated Balance Sheets (Unaudited)
March 31, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	March 31, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents, principally time deposits	$ 7,515	7,925
Receivables:		
Trade (net of allowance for doubtful accounts of $69 as of March 31, 2001 and $54 as of December 31, 2000)	5,797	7,040
Notes and other receivables	301	301
Total receivables	6,098	7,341
Costs and estimated earnings in excess of billings	1,628	1,665
Inventories:		
Raw materials	1,748	2,198
Work-in-process	328	340
Finished goods	529	508
Total inventories	2,605	3,046
Deferred income tax benefits	2,326	2,326
Prepaid expenses and other current assets	690	547
Total current assets	20,862	22,850
Property, plant and equipment, at cost:		
Land	27	27
Buildings and improvements	3,746	3,746
Machinery and equipment	6,483	6,341
	10,256	10,114

Less: accumulated depreciation	(7,505)	(7,334)
Net property, plant and equipment	2,751	2,780
Investments in joint ventures	2,028	2,000
Excess of cost over fair value of net assets acquired, less amortization of $701 as of March 31, 2001 and $585 as of December 31, 2000	18,009	18,125
Other assets, at cost less accumulated amortization of $64 as of March 31, 2001 and $210 as of December 31, 2000	159	162
Total assets	$ 43,809	45,917

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Balance Sheets (Unaudited)
March 31, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	March 31, 2001	December 31, 2000
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ 1,782	1,521
Accounts payable	3,983	4,412
Customers' deposits and billings in excess of costs and estimated earnings for completed and uncompleted contracts	4,625	4,446
Accrued salaries, wages, and commissions	890	2,130
Income taxes payable	-	369
Accrued royalties payable	81	253
Accrued product warranties	909	857
Accrued pension and retirement savings plan liabilities	610	688
Accrued other liabilities	705	517

Total current liabilities	13,585	15,193
Long-term liabilities:		
Long-term debt, excluding current installments:		
Term loan	9,000	9,775
Subordinated notes payable	3,000	3,000
Other	283	5
Total long-term debt	12,283	12,780
Deferred income taxes payable	719	823
Deferred compensation	143	141
Total long-term liabilities	13,145	13,744
Stockholders' equity:		
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding 4,210,959 shares as of March 31, 2001 and 4,194,869 shares as of December 31, 2000	4,211	4,195
Additional paid-in capital	7,002	6,882
Retained earnings	6,029	5,903
Accumulated other comprehensive loss, net of tax effect of $115	(163)	-
Total stockholders' equity	17,079	16,980
Total liabilities and stockholders' equity	$ 43,809	45,917

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, 2001 and March 31, 2000
(In Thousands, Except Share And Per Share Data)

Three Months Ended

	March 31, 2001	March 31, 2000
Net sales	$ 13,930	18,344
Cost of sales	10,337	13,912
Gross profit on sales	3,593	4,432
Selling, general and administrative expenses	2,941	2,390
Product development costs	199	49
Amortization of goodwill	117	117
Employee severance and termination benefits	-	337
Interest expense	364	421
Interest income	(114)	(61)
Equity in income of joint ventures	(28)	(24)
Other income, net	(90)	(86)
	3,389	3,143
Earnings before income taxes	204	1,289
Income tax expense	78	517
Net earnings	$ 126	772
Basic earnings per share	$ .03	.18
Diluted earnings per share	$ .03	.17
Weighted average shares outstanding	4,198,892	4,184,878
Dilutive effect of stock options	57,312	2,246
Dilutive effect of phantom stock units	18,096	18,120
Weighted average shares outstanding assuming dilution	4,274,300	4,205,244

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, 2001 and March 31, 2000
(In Thousands)

	Three Months Ended	
	March 31, 2001	March 31, 2000
Net earnings	$ 126	772
Other comprehensive income (loss), net of tax:		
Cash flow hedge:		
Cumulative effect of adoption of FAS 133	(96)	-
Net loss arising during the period	(67)	-
Net loss on cash flow hedge	(163)	-
Total other comprehensive loss	(163)	-
Comprehensive income (loss)	$ (37)	772

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, 2001 and March 31, 2000
(In Thousands, Except Share Data)

	Three Months Ended	
	March 31, 2001	March 31, 2000
Cash flows from operating activities:		
Net earnings	$ 126	772
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation of plant and equipment	171	150
Amortization of intangibles	126	133
Gain on disposition of equipment	-	(2)
Equity in income of joint ventures	(28)	(24)
Issuance of 12,390 common shares as payment of employee's bonus	111	-
Change in operating assets and liabilities, net of effects of the acquisition of Ermanco Incorporated:		
Receivables	1,243	(3,657)
Costs and estimated earnings in excess of billings	37	151
Inventories	441	(545)
Deferred income tax benefits	-	-

Prepaid expenses and other current assets	(143)	232
Other noncurrent assets	(7)	1
Accounts payable	(429)	651
Customers' deposits and billings in excess of costs and estimated earnings for completed and uncompleted contracts	179	(1,913)
Accrued salaries, wages, and commissions	(1,240)	(390)
Income taxes payable	(369)	535
Accrued royalties payable	(172)	(193)
Accrued pension and retirement savings plan liabilities	(78)	31
Accrued product warranties	52	50
Accrued other liabilities	188	(453)
Deferred income taxes payable	11	-
Deferred compensation	2	(20)
Net cash provided (used) by operating activities	221	(4,491)
Cash flows from investing activities:		
Proceeds from the disposition of equipment	-	2
Additional consideration paid in connection with Ermanco acquisition	-	(231)
Additions to property, plant and equipment	(142)	(115)
Net cash used by investing activities	(142)	(344)

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Statements of Cash Flows (Unaudited) (Continued)
For the Three Months Ended March 31, 2001 and March 31, 2000
(In Thousands, Except Share Data)

Three Months Ended

	March 31, 2001	March 31, 2000
Cash flows from financing activities:		
Sale of common shares in connection with employee incentive stock option plan	25	-
Repayment of long-term debt	(514)	(630)
Net cash used by financing activities	(489)	(630)
Decrease in cash and cash equivalents	(410)	(5,465)
Cash and cash equivalents, beginning of period	7,925	6,242
Cash and cash equivalents, end of period	$ 7,515	777
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 337	780
Income taxes	$ 465	36

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, 2001 and March 31, 2000

(1) The information contained in this Form 10-Q report is unaudited. In the opinion of management, the interim financial statements furnished reflect all adjustments and accruals that are necessary to a fair statement of results for the interim periods presented. 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. Refer to the Company's Form 10-K, as amended for the year ended December 31, 2000 for more complete financial information.

On February 9, 2000, the Board of Directors of the Company approved an amendment to Article 1 of the Company's Articles of Incorporation to change the name of the Company from SI Handling Systems, Inc. to Paragon Technologies, Inc. ("Paragon" or the "Company"). Paragon consists of two separate brands: SI Systems (formerly referred to as "SI Easton") and Ermanco Incorporated ("Ermanco"). This amendment became effective on April 5, 2000.

On March 9, 2000, the Company's common stock began trading on the American Stock Exchange (AMEX) under the symbol "PTG." Prior to this date, the Company's common stock was traded on The Nasdaq Stock Market under the symbol "SIHS."

(2) SI/BAKER, INC.

Paragon Technologies, Inc., and McKesson Automated Prescription Systems, Inc. ("McKesson APS"), formerly known as Automated Prescription Systems, Inc., are co-venturers in a joint venture named SI/BAKER, INC. ("SI/BAKER" or the "joint venture"). The SI/BAKER joint venture draws upon the automated materials handling systems experience of Paragon Technologies, Inc. and the automated pill counting and dispensing products of McKesson APS to provide automated pharmacy systems. Each member company contributed $100,000 in capital to fund the joint venture.

The joint venture designs and installs computer controlled, fully automated, integrated systems for managed care and central fill pharmacy operations. The joint venture's systems are viewed as labor saving devices, which address the issues of improved productivity and cost reduction. Systems can be expanded as customers' operations grow and they may be integrated with a wide variety of components to meet specific customer needs.

Schedule A contains the SI/BAKER, INC. financial statements. The information contained in the SI/BAKER, INC. financial statements is unaudited. In the opinion of management, the interim financial statements furnished reflect all adjustments and accruals that are necessary to a fair statement of results for the interim periods presented.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements
Three Months Ended March 31, 2001 and March 31, 2000

(3) Ermanco Incorporated

On September 30, 1999, the Company completed the acquisition of all of the outstanding common stock of Ermanco, which now operates as a wholly-owned subsidiary of the Company. Ermanco, headquartered in Spring Lake, Michigan, designs and installs complete conveying systems for a variety of manufacturing and warehousing applications. 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, of which $1,551,000 was held in escrow ($801,000 was released in January 2000, and the remaining balance of $750,000 was released in March 2001), $3,000,000 in promissory notes payable to 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. The Company financed $14,000,000 of the acquisition through term debt. The acquisition required a net cash outlay of $2,264,000.

The acquisition was accounted for as a purchase in accordance with APB No. 16 and, accordingly, the acquired assets and assumed liabilities have been recorded at their estimated fair value at the date of acquisition. The amount of excess of cost over fair value of net assets acquired associated with the acquisition was $18,710,000 and is being amortized over a period of 40 years.

(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's Easton, Pennsylvania operations (hereafter referred to as "SI

Systems") is a systems integrator supplying automated materials handling systems to manufacturing, order selection, and distribution operations. The systems are designed, sold, manufactured, installed, and serviced by its own staff or by others for SI Systems, at its direction, generally as labor-saving devices to improve productivity and reduce costs. SI Systems' 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' integrated materials handling solutions involve both standard and specially designed components and include integration of non-proprietary automated handling technologies so as to provide solutions for its customers' unique materials handling needs. SI Systems' staff develops and designs computer control programs required for the efficient operation of the systems.

SI Systems derives a majority of its sales from customers located in North America, including the U.S. government. SI Systems' business is dependent upon a limited number of large contracts with certain customers. This dependence can cause unexpected fluctuations in sales volume. Along with sales recognized on the percentage of completion accounting method, the monthly rate of new orders can also vary substantially, causing fluctuations in the current backlog of orders and future revenue recognition. Various external factors affect the customers' decision-making process on expanding or upgrading their 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.

Ermanco is a manufacturer of light to medium duty unit handling conveyor products, serving the materials handling industry through local independent distributors in North America. 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 subcontracted, and subcontracted installation services. The systems product line of Ermanco accounts for approximately 55% of Ermanco's total revenues, and the balance is from resale distribution.

SI Systems' products are sold on a fixed price basis. Generally, contract terms provide for progress payments and a portion of the purchase price is withheld by the buyer until the system has been accepted. Ermanco's products and services are also sold on a fixed price basis. Many of Ermanco's sales are to distributors who have non-exclusive agreements with the Company. Generally, contract terms are net 30 days for product sales, with progressive payments for system-type projects.

Prior to the acquisition, the Company operated in one major market segment. With the addition of the Ermanco operations, the Company now operates in two major market segments, and products are sold worldwide as follows:

For the Three Months Ended March 31, 2001 (In Thousands):	Automated Materials Handling Systems	Conveyor Systems	Total
Sales	$ 6,224	7,706	13,930
Earnings before interest expense, interest income, equity in income of joint ventures, and income taxes	333	93	426
Total assets	13,906	29,903	43,809
Capital expenditures	49	93	142
Depreciation and amortization expense	103	194	297

For the Three Months Ended March 31, 2000 (In Thousands):	Automated Materials Handling Systems	Conveyor Systems	Total
Sales	$ 7,740	10,604	18,344
Earnings before interest expense, interest income, equity in income of joint ventures, and income taxes	301	1,324	1,625
Total assets	13,354	30,261	43,615
Capital expenditures	25	90	115
Depreciation and amortization expense	101	182	283

Geographic segment information was as follows (in thousands):

For the Three Months Ended March 31, 2001 (In Thousands):	Domestic	Europe and Asia	Canada	Total
Sales	$ 12,042	1,590	298	13,930
Earnings before interest expense, interest income, equity in income of joint ventures, and income taxes	426	-	-	426
Total assets	43,809	-	-	43,809
Capital expenditures	142	-	-	142
Depreciation and amortization expense	297	-	-	297

Intersegment sales for the three months ended March 31, 2001 totaled $0.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements
Three Months Ended March 31, 2001 and March 31, 2000

Geographic segment information was as follows (in thousands):

For the Three Months Ended March 31, 2000 (In Thousands):	Domestic	Europe and Asia	Canada	Total
Sales	$ 16,828	1,243	273	18,344
Earnings before interest expense, interest income, equity in income of joint ventures, and income taxes	1,625	-	-	1,625
Total assets	43,615	-	-	43,615
Capital expenditures	115	-	-	115
Depreciation and amortization expense	283	-	-	283

Intersegment sales for the three months ended March 31, 2000 totaled $3,000.

(5) New Accounting Pronouncements

Effective January 1, 2001, the Company adopted Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (FAS 133). This standard requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The net cumulative effect of adopting FAS 133 as of January 1, 2001 was approximately a $96,000 loss to accumulated 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 seven-year interest rate swap has a notional amount of $7,000,000 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. The fair value of the interest rate swap at March 31, 2001 was a liability of approximately $278,000.

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

(6) Other Comprehensive Loss

The separate components of other comprehensive loss are as follows (in thousands):

	Gross	Tax Effect	Net
Cumulative impact of adoption of FAS 133	$ 165	69	96
Other comprehensive loss	113	46	67

Accumulated other comprehensive loss at March 31, 2001	$ 278	115	163

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 decreased to $7,515,000 at March 31, 2001 from $7,925,000 at December 31, 2000. The decrease resulted from the repayment of long-term debt of $514,000 and purchases of capital equipment totaling $142,000. Partially offsetting the decrease in cash and cash equivalents from these uses was cash provided by operating activities totaling $221,000 and proceeds of $25,000 from the sale of common stock in connection with the Company's Incentive Stock Option and Equity Compensation Plans. Funds used by operating activities during the three months ended March 31, 2000 were $4,491,000.

On September 30, 1999, the Company completed the acquisition of all the outstanding common stock of Ermanco Incorporated ("Ermanco"). Ermanco, headquartered in Spring Lake, Michigan, designs and installs complete conveying systems for a variety of manufacturing and warehousing applications.

In order to complete the Ermanco acquisition, the Company obtained financing from its principal bank. The Company entered into a new three-year line of credit facility which may not exceed the lesser of $6,000,000 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, plus an amount equal to $2,500,000. This amount will be reduced by $625,000 every six months during the first two years of the line of credit facility until such amount reaches zero, minus 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, 2001, the Company did not have any borrowings under the line of credit facility.

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 will repay equal quarterly payments of $312,500 plus accrued interest. After the second anniversary of the September 30, 1999 Closing Date, the Company will make equal quarterly payments of $575,000, plus interest. The interest rate on the term loan is variable at a rate equal to the three-month LIBOR Market Index Rate, plus three percent (7.90%) as of March 31, 2001. The Company also entered into an interest rate swap agreement for fifty percent of the term loan to hedge the floating interest rate. The seven-year interest rate swap for $7,000,000 is at a fixed rate of 9.38%. On July 27, 2000, the Company prepaid, without penalty, $1,150,000 of the term loan with the variable interest rate. The prepayment consisted of two quarterly payments of $575,000 pertaining to the final year of the term loan.

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, and maintenance of certain financial ratios. The Company was in compliance with all covenants as of March 31, 2001.

The Company also issued promissory notes to fourteen stockholders of Ermanco 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 ten percent in years one through three, twelve percent in years four and five, and fourteen percent in years six and seven. 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 its line of credit facility and term loan.

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

Liquidity and Capital Resources (Continued)

On March 4, 1996, SI/BAKER established a line of credit facility (the "facility") with its principal bank (the "bank"). Under the terms of the $3,000,000 facility, SI/BAKER's parent companies, Paragon Technologies, Inc. and McKesson Automated Prescription 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, 2001, SI/BAKER did not have any borrowings under the facility, and the facility expires effective August 31, 2001.

The Company anticipates that its financial resources, consisting of borrowings under its credit facility, cash generated from operations, and term debt will be adequate to satisfy its future cash requirements through the next twelve months. Due to the unpredictability of future contract sales, the dependence upon a limited number of large contracts with certain customers, sales volume, as well as cash liquidity, may experience fluctuations. For these reasons, cash liquidity beyond a twelve-month period is difficult for the Company to forecast with reasonable accuracy.

The Company plans to consider expansion opportunities as they arise, although 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. The Company did not have any material capital commitments as of March 31, 2001.

Results Of Operations

Three Months Ended March 31, 2001 Versus Three Months Ended March 31, 2000

Net sales of $13,930,000 for the three months ended March 31, 2001 decreased 24.1% compared to net sales of $18,344,000 for the three months ended March 31, 2000, primarily due to both a smaller backlog of orders at December 31, 2000 versus a larger backlog of orders at December 31, 1999 and the recent economic slowdown. The net sales decrease of $4,414,000 was comprised of a decrease in Ermanco's sales of approximately $2,898,000 and a decrease in SI Systems' sales of approximately $1,516,000 for the three months ended March 31, 2001 when compared to the three months ended March 31, 2000. Ermanco's decline in sales was primarily due to the prior year comparable period containing a greater amount of sales related to a manufacturer of computer equipment in connection with projects that were completed in fiscal 2000. SI Systems experienced a decline in sales across several of its product lines, with the majority of the decrease in the Order Picking, Fulfillment, and Replenishment product line. Partially offsetting the decrease in SI Systems' sales across a majority of its product lines, was an increase in SI Systems Lo-Tow(R) sales of approximately $487,000. SI Systems' business is dependent upon a limited number of large contracts with certain customers. This dependence can cause unexpected fluctuations in sales volume. Along with sales recognized on the percentage of completion accounting method, the monthly rate of new orders can also vary substantially, causing fluctuations in the current backlog of orders and future revenue recognition. Various external factors affect the customers' decision-making process on expanding or upgrading their 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.

Results Of Operations

Three Months Ended March 31, 2001 Versus Three Months Ended March 31, 2000
(Continued)

Gross profit, as a percentage of sales, was 25.8% for the three months ended March 31, 2001 compared to 24.2% for the three months ended March 31, 2000. The increase in the gross profit percentage for the three months ended March 31, 2001 was attributable to favorable performance on several contracts, principally SI Systems' higher margin proprietary products, initiated in the prior fiscal year that were completed during the three months ended March 31, 2001, along with the reversal of approximately $240,000 in previously established contract accruals due to changes in cost estimates. Gross profit on sales for the three months ended March 31, 2000 was unfavorably impacted by the recognition of approximately $1,125,000 in sales at no gross profit margin on three major contracts.

Selling, general and administrative expenses of $2,941,000 were higher by $551,000 for the three months ended March 31, 2001 than in the three months ended March 31, 2000. The increase of $551,000 was comprised of approximately $185,000 in costs associated with the Company's enhanced sales and marketing efforts, and approximately $175,000 of expenses associated with employee terminations due to sluggishness associated with the recent economic slowdown. Also contributing to the increase in selling, general and administrative expenses during the three months ended March 31, 2001 was the result of the prior year comparable period containing a reduction in selling, general and administrative expenses of approximately $66,000 due to the reversal of previously recognized expenses associated with phantom stock units related to the Company's Directors' Deferred Compensation Plan.

Product development costs of $199,000 were higher by $150,000 for the three months ended March 31, 2001 than in the three months ended March 31, 2000. Development programs in the three months ended March 31, 2001 included enhancements to the Company's Order Picking, Fulfillment, and Replenishment product line and also development efforts related to two new products, NBS 30(TM) and NBS 90(TM), narrow belt sorters, that were introduced in the materials handling marketplace during the first quarter of 2001. Development programs in the three months ended March 31, 2000 included enhancements to the Company's horizontal transportation and Order Picking, Fulfillment, and Replenishment product lines.

Employee severance and termination benefits of $337,000 for the three months ended March 31, 2000 was associated with a restructuring initiative, whereby the Company separated approximately sixteen employees. There were no restructuring charges for the three months ended March 31, 2001.

Interest expense of $364,000 was lower by $57,000 for the three months ended March 31, 2001 than in the three months ended March 31, 2000. The decrease in interest expense was primarily attributable to the reduced level of term debt due to principal prepayments.

Interest income of $114,000 for the three months ended March 31, 2001 increased by $53,000, when compared to the three months ended March 31, 2000. The increase in interest income was primarily attributable to higher level of funds available for short-term investments during the three months ended March 31, 2001.

The Company incurred income tax expense of $78,000 during the three months ended March 31, 2001, compared to income tax expense of $517,000 in the comparable prior year period. Income tax expense was generally recorded at statutory federal and state tax rates expected to apply for each fiscal year.

The total backlog of orders at March 31, 2001 was approximately $17,850,000. During the three months ending March 31, 2001, the Company received orders totaling approximately $8,867,000.

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 and uncertainties associated with the Ermanco acquisition, including the failure to realize anticipated benefits of such acquisition, the failure to integrate Ermanco successfully with the Company, and any unforeseen complications related to the Ermanco acquisition; (3) 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; (4) 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; (5) 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 uses a variable rate line of credit facility to provide working capital for operations. On September 30, 1999, the Company entered into an interest rate 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.

PART II -- OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits-- None.

(b) No reports on Form 8-K were filed during the quarter ended March 31, 2001.

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
Chief Financial Officer

Dated: May 14, 2001

Schedule A

SI/BAKER, INC.

Financial Statements
March 31, 2001

- 18 -

SI/BAKER, INC.
Balance Sheets (Unaudited)
March 31, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	March 31, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents, principally time deposits	$ 4,081	4,681
Receivables:		
Trade	2,487	1,001
Other receivables	53	65
Total receivables	2,540	1,066
Costs and estimated earnings in excess of billings	1,937	1,873
Deferred income tax benefits	409	409
Prepaid expenses and other current assets	283	36
Total current assets	9,250	8,065
Machinery and equipment, at cost	233	222
Less: accumulated depreciation	155	147

Net machinery and equipment	78	75
Equipment leased to customer	-	487
Less: accumulated depreciation	-	487
Net equipment leased to customer	-	-
Deferred income tax benefits	8	8
Total assets	$ 9,336	8,148

SI/BAKER, INC.
Balance Sheets (Unaudited)
March 31, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	March 31, 2001	December 31, 2000
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable:		

Trade	$ 1,056	663
Affiliated companies	14	56
Total accounts payable	1,070	719
Customers' deposits and billings in excess of costs and estimated earnings	2,541	1,459
Accrued salaries, wages, and commissions	107	358
Income taxes payable	-	127
Accrued royalties payable	747	766
Accrued product warranties	1,119	1,055
Accrued other liabilities	51	88
Total current liabilities	5,635	4,572
Stockholders' equity:		
Common stock, $1 par value; authorized 1,000 shares; issued 200 shares	-	-
Additional paid-in capital	200	200
Retained earnings	3,501	3,376
Total stockholders' equity	3,701	3,576
Total liabilities and stockholders' equity	$ 9,336	8,148

SI/BAKER, INC.
Statements of Operations (Unaudited)
Three Months Ended March 31, 2001 and March 31, 2000
(In Thousands)

	Three Months Ended	
	March 31, 2001	March 31, 2000
Net sales	$ 2,931	3,433
Cost of sales	2,425	2,875
Gross profit on sales	506	558
Selling, general and administrative expenses	263	269
Product development costs	20	16
Royalty expense to parent companies	117	137
Interest income	(66)	(43)
Other income, net	(36)	(45)
	298	334
Earnings before income taxes	208	224
Income tax expense	83	91
Net earnings	125	133

SI/BAKER, INC.
Statements of Cash Flows (Unaudited)
Three Months Ended March 31, 2001 and March 31, 2000
(In Thousands)

	Three Months Ended	
	March 31, 2001	March 31, 2000
Cash flows from operating activities:		
Net earnings	$ 125	133
Adjustments to reconcile net earnings to net cash used by operating activities:		
Depreciation of machinery and equipment and leased equipment	8	25
Changes in operating assets and liabilities:	(1,474)	(78)
Receivables		
Costs and estimated earnings in excess of billings	(64)	1,267)
Prepaid expenses and other current assets	(247)	(75)
Accounts payable	351	8
Customers' deposits and billings in excess of costs and estimated earnings	1,082	871
Accrued salaries, wages, and commissions	(251)	(9)
Income taxes payable	(127)	(103)
Accrued royalties payable	(19)	114
Accrued product warranties	64	116
Accrued other liabilities	(37)	3
Net cash used by operating activities	(589)	(262)
Cash flows from investing activities:		
Additions to machinery and equipment	(11)	(7)
Net cash used by investing activities	(11)	(7)
Decrease in cash and cash equivalents	(600)	(269)
Cash and cash equivalents,		

beginning of period	4,681	2,895
Cash and cash equivalents, end of period	4,081	2,626
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	361	254
Interest	-	-