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**PARAGON**  
TECHNOLOGIES

**ANNUAL REPORT**  
December 31, 2001





## WE BUILD PRODUCTIVITY

Paragon Technologies, Inc. is one company, with a wide range of capabilities to meet the material handling needs of an increasingly diverse and demanding marketplace. Paragon is an unparalleled resource for specialized material handling solutions which are delivered to the marketplace through two primary brands (Ermanco and SI Systems) and our joint venture under the SI/BAKER brand. And, our strategy is to leverage each brand to enhance and further strengthen the others, as well as the whole.

Ermanco— sortation, accumulation, and innovation. No name in the industry means more in the areas of accumulation and sortation technologies. Ermanco has a strong reputation for efficient, high-performance material handling components and creating new technologies that have quickly become industry standards. The new NBS family of sorters has provided customers with exceptional, cost-effective, high-speed systems, positioning the company to make even greater inroads in other areas of manufacturing and distribution processes such as accumulation and induction to further enhance integration and throughput.

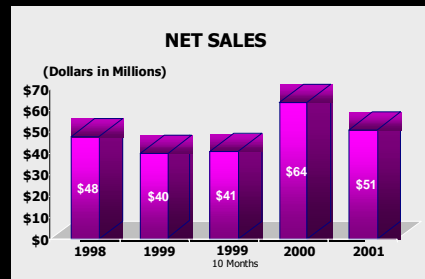
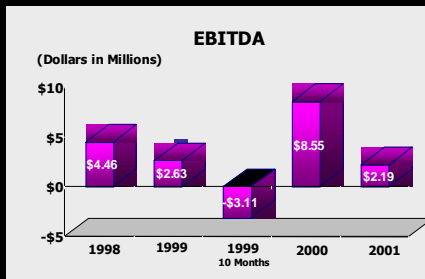
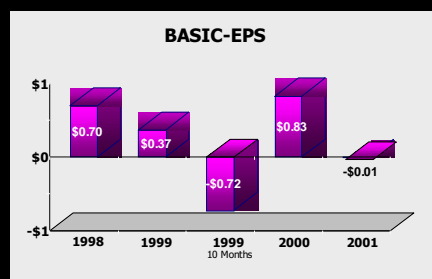
SI Systems—new excitement in our technologies *and* our potential. Reputations in material handling are earned through long-term performance. Few companies have a better track record than SI Systems. Its LO-TOW<sup>®</sup>, CARTRAC<sup>®</sup>, and DISPEN-SI-MATIC<sup>™</sup> technologies are relied upon in industries throughout the world. Now, SI Systems is adding new excitement to those technologies, with ergonomic improvements and control system solutions that further enhance productivity. We're also extending the reach of SI Systems productivity to a broader marketplace by selling SI Systems capabilities through our existing Paragon Technologies distributor network.

Paragon Technologies - where  $1 + 1 = \text{more than } 2$ . We have started to mesh both the Ermanco and SI Systems technologies to craft unique solutions for customers. We recognize that most of our customers operate in fierce worldwide competitive markets where they must deliver quality products at the lowest possible costs. The ability to achieve a total systems solution becomes an important element in the strategic plans of our customers. That's just another way of saying productivity is critical, and that's what we're all about.

SI/BAKER—in a unique marketplace, it's just what the doctor ordered. As America ages, prescription drug volumes are skyrocketing, while the number of pharmacists fails to even remotely keep up. Positioned perfectly to help remedy this problem is our joint venture, SI/BAKER. The company's integration skills and technologies enable large drug chains to establish "central fill" operations at remote locations, speeding and streamlining the process at their retail outlets. Mail order prescriptions and other applications benefit from SI/BAKER technology as well.



## FINANCIAL HIGHLIGHTS



(\$ in thousands, except share and per share data)	Fiscal Year Ended		10 Months	Fiscal Year Ended	
	12/31/01	12/31/00	Ended 12/31/99	2/28/99	3/1/98
<b>Statement of Operations:</b>					
Net sales .....	\$ 50,752	64,306	41,108	39,573	47,631
Operating income (loss) .....	\$ (198)	6,176	(4,074)	1,883	3,184
Operating margin.....	-0.4%	9.6%	-9.9%	4.8%	6.7%
Net earnings (loss) .....	\$ (62)	3,480	(2,780)	1,378	2,612
Basic earnings (loss) per share .....	\$ (.01)	0.83	(0.72)	0.37	0.70
Diluted earnings (loss) per share.....	\$ (.01)	0.82	(0.73)	0.36	0.70
<b>Balance Sheet:</b>					
Current assets .....	\$ 19,200	22,850	21,686	20,606	19,502
Current liabilities .....	\$ 13,388	15,193	16,311	11,205	10,537
Working capital.....	\$ 5,812	7,657	5,375	9,401	8,965
Current ratio .....	1.43	1.50	1.33	1.84	1.85
Total assets .....	\$ 41,343	45,917	45,406	23,580	22,219
Long-term debt .....	\$ 9,900	12,780	15,451	16	26
Stockholders' equity .....	\$ 16,881	16,980	13,425	12,147	11,466
Total capitalization.....	\$ 26,781	29,760	28,876	12,163	11,492
Average return on equity .....	-0.4%	22.9%	-21.7%	11.7%	25.5%
Average return on investment .....	-0.2%	11.9%	-13.5%	11.7%	25.4%
<b>Other information:</b>					
Book value per share.....	\$ 4.00	4.05	3.21	3.28	3.09
Cash flow per basic weighted average share outstanding .....	\$ .22	1.21	2.18	0.89	(1.39)
Cash dividends per share.....	\$ -	-	0.10	0.10	0.07
Depreciation .....	\$ 706	648	369	361	330
Amortization (excluding write-off of intangible assets) .....	\$ 508	558	252	12	11
EBITDA .....	\$ 2,193	8,552	(3,109)	2,627	4,463
EBIT .....	\$ 979	7,346	(3,730)	2,254	4,122
Shares of common stock outstanding.....	4,221,635	4,194,869	4,184,878	3,705,048	3,711,826
Basic - weighted average shares outstanding .....	4,210,819	4,189,874	3,835,718	3,718,887	3,705,590
Diluted - weighted average shares outstanding.....	4,210,819	4,207,644	3,852,211	3,757,330	3,755,595
Backlog of orders .....	\$ 13,342	22,913	23,685	19,884	22,092

## A YEAR OF ACCOMPLISHMENTS

During the past year, we made significant strides toward achieving our goal—to be viewed by our customers as the preferred supplier of material handling technologies and systems. We believe that these accomplishments, together with our continued strong focus on creating customer success, will result in profitable growth and increased shareholder value for Paragon Technologies as the demand for capital goods improves.

General and market-specific economic conditions deteriorated in 2001, tightening the market for capital equipment and related services. As a result, both sales and earnings were lower for the year. In 2001, sales were \$51 million, compared to a record \$64 million in 2000. Excluding restructuring, severance, and special charges of approximately \$.30 per share, basic earnings per share were \$.29 versus last year's record \$.83. Including these charges, the basic loss per share for 2001 was \$.01.

Despite the tough economy, we continued to strengthen our balance sheet in 2001 by reducing bank debt by \$2.1 million to \$9.2 million, preserving working capital, and decreasing inventory. Underutilized assets were converted to cash and we have placed the 170,000 square foot Easton, Pennsylvania, facility for sale to generate further cash.

Key milestones for 2001 include the following:

- We continued to leverage the strength of each of our brands to enhance and further strengthen Paragon Technologies. This, combined with the elimination of operational redundancies among the brands, is expected to generate annual cost reductions of approximately \$2 million.
- We initiated a multi-brand, multi-channel marketing and sales strategy integrated with our distributor network to maximize sales. A more cohesive sales and marketing organization was a major factor behind the gains we were able to achieve in market share.
- We expanded a world class operations program to engage all of our people in a continuous improvement process to reduce costs and inventory levels, speed cycles, and improve quality and safety.
- We launched our Narrow Belt Sorter ("NBS") family of technologies early in 2001. These unique component technologies created market demand at a time when the customers' willingness to purchase entire system solutions was low. Continued investment in a stream of new technologies to attract new customers and pursue new markets is a core strategy.

The decisive actions that we took to reduce costs in 2001 were exceedingly important, not only in their effect on 2001 results, but also their impact on the future. Although the timing of a full market recovery is uncertain, the cost reductions, coupled with the implementation of sales and marketing strategies, careful investments in product development, and our world class operations initiative strongly position us to perform well as the economy improves.

In December 2001, Paragon Technologies was reincorporated into Delaware by an overwhelming majority of the votes cast by shareholders. The Board of Directors is clearly focused on increasing shareholder value. Gilman Hallenbeck, Theodore Myers, and Anthony Schweiger became Directors of Paragon. We appreciate the contributions and years of service of our former Chairman, Elmer Gates.

We appreciate the continuing support from investors, customers, suppliers, and the commitment of our associates to make Paragon Technologies a name synonymous with excellence and value.

Sincerely,

  
Anthony W. Schweiger  
Chairman of the Board

  
William R. Johnson  
President and CEO

# INSIDE PARAGON

## Engineering and Technologies Strength

We're proud to report that our talented people and advanced technologies have enabled us to weather the challenging markets and challenging times. We emerge from 2001 with greater potential for our future.



Our technology and engineering strength, coupled with a common reservoir of material handling expertise and a value-added approach to create customer success, positions us to be more responsive to both customers and markets.

New Ermanco technologies add to Paragon's reputation for accumulation, sortation, and beyond. In the past year, Ermanco has continued to penetrate the distribution and logistics markets.



Leading the way in this pursuit were the Ermanco NBS 30® and NBS 90® sorters. The unique capabilities of these technologies made them an instant success in the marketplace, with well over 50 units sold. These products helped us to stabilize sales in a difficult year when

many competitors floundered. Add in our success with IntelliROL®, motorized roller technology, and it is clear that our credibility for developing breakthrough technologies has been materially enhanced.

As a result, we are positioned extremely well to expand our expertise into other areas, such as induction and advanced accumulation technologies and systems. We also anticipate pioneering advancements in systems control software, both in standardized modules and customized solutions, will further differentiate us in the marketplace.



Customer-specific solutions are one of the most important signs of our progress in the past 12 months. Thanks in part to the infusion of SI Systems integration expertise, Ermanco is now being viewed far more as a systems

integrator, supporting a wide range of end-user needs. Tangible proof of our success is found in the fact that market share is significantly increasing.

Ermanco is broadly respected not only for developing the right technologies, but also for specifying and *adapting* the right technology for each and every customer application. That's an unparalleled value proposition for customers, distributors, and shareholders.



Continuous improvements for rock-solid technologies .



SI Systems has pioneered the most prominent and reliable material handling technologies in several industries, from vehicle assembly to intricate order selection. Because we recognize our customers must continually adapt to rapidly

changing markets and competitive forces, we continually strive to deepen our expertise in these key market segments, and refine and improve those landmark technologies.

Ergonomics is one such area of dramatic improvement in the past year. Our Lo-Tow® system has been enhanced with system controls that now permit carrier actions to be custom "fitted" to best match the ergonomic and productivity needs of each worker at each station. Products are raised, lowered, tilted, and turned automatically to optimize throughput and minimize worker fatigue and effort.



# INSIDE PARAGON

## Engineering and Technologies Strength

Ergonomics, while extremely important, are by no means the only area in which SI Systems has thrived in the past year. Advanced control systems have allowed many different SI Systems



technologies to function even more efficiently and perform critical tasks required in the production process.

Controlling the process is obviously the primary function of the software, ensuring that all technolo-

gies function properly and interface smoothly with other parts of the system. But new control systems from SI Systems meet other end-user needs as well. At many manufacturing facilities, particularly in vehicle assembly, constant data interchange is essential at many stages of the process.

The electronic coding of every part and every operation provides required documentation as to the origin and utilization of every part—from entry to finished unit production and shipping. This enables the quick component tracing and tracking necessary for world class operations and ISO standards. SI Systems has designed sophisticated controls that can be adapted to almost any situation to provide for the movement of data—smoothly and consistently.

But perhaps the year's biggest news is the great potential we've added to the SI Systems sales process. For the first time, we are tapping into the Ermanco distributor network, giving Ermanco representatives the opportunity to promote and sell SI Systems technologies and services. This clearly adds a powerful new dimension in spreading the news about the full range of Paragon Technologies' capabilities, and we look for great results from this synergy of technologies and the sales/support system.

Another dose of good news from SI/BAKER.

SI/BAKER, our joint venture with McKesson Automation Systems continues to prosper. What's more, aging demographics and unrelenting pressure on medical costs drive continuing strong demand for SI/BAKER products.



SI/BAKER has installed systems that can fill over 35,000 prescriptions in one 8-hour shift with exceptional accuracy. Plans are in the works for a system that can handle nearly double that.

Speed and volume are only part of the story. The company has seen excellent growth in the distribution of specialty pharmaceuticals that involve high-end drug products, such as injectables used in biotech and chemotherapy applications.



While speed and efficiency are clearly the watchwords for SI/BAKER customers, accuracy is another important benefit. By providing equipment and systems that fill prescriptions not only quickly, but virtually *flawlessly*, we are helping to provide needed drugs with an element of safety and security that the corner drug store would have trouble achieving.

The preferred prescription for cost-effective and accurate drug dispensing is SI/BAKER.

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## OFFICERS

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**William R. Johnson**  
*President and CEO*  
*Paragon Technologies, Inc.*

**Leon C. Kirschner**  
*President, Ermanco Incorporated*  
*Chief Operating Officer*  
*Paragon Technologies, Inc.*

**Ronald J. Semanick**  
*Vice President Finance, CFO, Treasurer & Secretary*  
*Paragon Technologies, Inc.*

**Gordon A. Hellberg**  
*Vice President Sales*  
*Paragon Technologies, Inc.*

**Lee F. Schomberg**  
*Vice President Marketing*  
*Paragon Technologies, Inc.*

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## DIRECTORS

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**Anthony W. Schweiger**  
*Chairman of the Board, Paragon Technologies*  
*President, The Tomorrow Group, LLC*  
*Managing Principal, e-brilliance, LLC*  
*Director, Radian Group Inc.*

**L. Jack Bradt**  
*Founder, former Chairman and CEO of SI Handling Systems, Inc.*  
*Former Northampton County Human Services Director*  
*Former Entrepreneur in Residence at Lehigh University*

**Gilman J. Hallenbeck**  
*Chairman, Street Lighting Equipment Corporation*  
*Owner of Bolt Electric Company, NUJA Realty Corporation,*  
*and Asbury Leasing Company*  
*Former Chairman of Area Lighting Research, Inc.*

**William R. Johnson**  
*President and CEO, Paragon Technologies, Inc.*

**Leon C. Kirschner**  
*President, Ermanco Incorporated*  
*Chief Operating Officer, Paragon Technologies, Inc.*  
*Director, Terrace Food Group, Inc.*

**Theodore W. Myers**  
*Former First Vice President and Branch Manager,*  
*Tucker Anthony Sutro*

**Steven Shulman**  
*Principal, The Hampton Group*  
*Managing Director, Latona Associates, Inc.*  
*Chairman, Terrace Food Group Inc.*  
*Director of C3i Inc., and*  
*Beacon Capital Partners, Inc.*

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**Stock Listing**  
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