PENN ENGINEERING & MANUFACTURING CORP
Form 10-Q
May 14, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 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

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the transition period from_________to______

Commission file number 1-5356

PENN ENGINEERING & MANUFACTURING CORP.
(Exact name of registrant as specified in its charter)

Delaware	23-0951065
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P.O. Box 1000, Danboro, Pennsylvania 18916 (Address of principal executive offices) (Zip Code)

(215)-766-8853
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all documents and 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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date: 3,350,164 shares of Class A common stock, $.01 par value, and 14,081,933 shares of common stock, $.01 par value, outstanding on May 9, 2003.

Page 1 of 19 pages.

PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements

PENN ENGINEERING & MANUFACTURING CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

ASSETS

	(unaudit
CURRENT ASSETS	March 31,
Cash and cash equivalents	$8,16
Short-term investments	23
Accounts receivable-net	34,59
Inventories	57,42
Refundable income taxes	1,59
Other current assets	1,93
Total current assets	103,93
PROPERTY	
Property, plant & equipment	187,94
Less accumulated depreciation	91,06
Property - net	96,87
GOODWILL, NET	30,81
OTHER ASSETS	5,16
TOTAL	$236,79

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$7,48
Bank debt	24,74
Dividends payable	
Accrued expenses:	
Pension & profit sharing	1,09
Payroll & commissions	3,48
Other	4,98
Total current liabilities	41,79
ACCRUED PENSION COST	3,77
DEFERRED INCOME TAXES	7,45
STOCKHOLDERS' EQUITY	
Common stock	14

Class A common stock	3
Additional paid-in capital	41,08
Retained earnings	147,70
Accumulated other comprehensive income	87
Treasury stock	(6,08
Total stockholders' equity	183,77
TOTAL	$236,79

See Notes to Condensed Consolidated Financial Statements

PENN ENGINEERING & MANUFACTURING CORP.
STATEMENTS OF CONDENSED CONSOLIDATED INCOME

(Dollars in thousands except per share amounts)

	THREE MONTHS ENDED (unaudited)	
	March 31, 2003	Marc
Net Sales	$44,814	
Cost of Products Sold	32,240	
Gross Profit	12,574	
Selling Expenses	5,229	
General and Administrative Expenses	6,267	
Operating Income	1,078	
Other (Expense) Income:		
Interest income	47	
Interest expense	(307)	
Other, net	(126)	
Total Other (Expense) Income	(386)	
Income Before Income Taxes	692	
Provision for Income Taxes	152	
Net Income	$540	
PER SHARE DATA:		
Basic earnings	$0.03	

Diluted earnings	$0.03
	=====
Cash dividends declared	$0.06
	=====

See Notes to Condensed Consolidated Financial Statements

PENN ENGINEERING & MANUFACTURING CORP.
STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS

(Dollars in thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:
Net income
Adjustments to reconcile net income to net
cash provided by operating activities:
Depreciation
Amortization
Deferred income taxes
Foreign currency transaction losses
Gain on disposal of property
Changes in assets and liabilities:
Increase in receivables
Decrease (increase) in inventories
Decrease in refundable income taxes
Decrease in other current assets
Increase in other assets
Increase in accounts payable
Increase (decrease) in accrued expenses

Net cash provided by operating activities

CASH FLOWS FROM INVESTING ACTIVITIES:
Property additions
Acquisitions of businesses (net of cash acquired)
Proceeds from disposal of property

Net cash used in investing activities

CASH FLOWS FROM FINANCING ACTIVITIES:
Net short-term repayments
Dividends paid
Issuance of common stock

Net cash used in financing activities

Effect of exchange rate changes on cash

Net (decrease) increase in cash and cash equivalents
Cash and cash equivalents at beginning of period

Cash and cash equivalents at end of period

See Notes to Condensed Consolidated Financial Statements

PENN ENGINEERING & MANUFACTURING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003

Note 1. Condensed Consolidated Financial Statements (Unaudited)

The accompanying interim financial statements should be read in conjunction with the annual financial statements and notes thereto included in the Company's Annual Report for the year ended December 31, 2002. The information contained in this report is unaudited and subject to year-end audit and adjustment. In the opinion of management, all adjustments (which include only normal recurring adjustments) have been made which are necessary for a fair presentation of the Company's consolidated financial position at March 31, 2003 and 2002 and the consolidated statements of income and cash flows for the three-month periods then ended. The results of operations for the three months ended March 31, 2003 are not necessarily indicative of the results of operations to be expected for the year ending December 31, 2003. .

Note 2. Inventories

Substantially all of the Company's domestic fastener inventories are priced on the last-in, first-out (LIFO) method, at the lower of cost or market. The remainder of the inventories are priced on the first-in, first-out (FIFO) method, at the lower of cost or market.

Inventories are as follows: (Dollars in thousands)

	(unaudited) March 31, 2003	December 31, 2002
Raw material	$6,791	$4,566
Tooling	6,833	4,926
Work-in-process	8,577	7,935
Finished goods	35,221	39,031
TOTAL	$57,422	$56,458

If the FIFO method of inventory valuation had been used by the Company for all inventories, inventories would have been $10,246,000 and $10,100,000 higher than reported at March 31, 2003 and December 31, 2002, respectively, and net income would have been $114,000 and $131,000 higher than reported for the three months ended March 31, 2003 and 2002, respectively. Long-term tooling inventory totaling $2,000,000 at March 31, 2003 and $2,500,000 at December 31, 2002 is included in Other Assets.

Note 3. Bank Debt

As of March 31, 2003, the Company has four unsecured line-of-credit facilities available. All lines-of-credit bear interest at interest rate options provided in the facilities and are reviewed annually by the banks for renewal. The first two facilities are working capital facilities. The first facility is a working capital facility that permits maximum borrowings of $7,000,000, due on demand. At March 31, 2003, there was no outstanding amount on this facility. The second facility is a general facility that allows for borrowings of up to $40,000,000. At March 31, 2003, there was no amount outstanding on this facility. The third facility allows for borrowings of up to $12,000,000. A $9,000,000 term loan is currently outstanding on this facility at a rate of 3.6% (3.1% after giving effect to interest rate swaps). This loan is payable in 12 equal monthly installments commencing January 31, 2003 with the final payment due and payable on December 31, 2003. This loan is currently classified as short-term debt.

The fourth facility permits borrowings of up to $8,000,000. At March 31, 2003, $8,000,000, bearing interest at 2.53% (3.35% after giving effect to interest rate swaps) was outstanding on this facility and was classified as short-term debt.

These line of credit facilities require the Company to comply with certain financial covenants. At March 31, 2003, the Company was in compliance with all financial covenants.

In addition to the above domestic line-of-credit facilities, the Company's new subsidiary, Maelux SA (Note 7) has several short-term credit facilities in place and there was $7,745,000 outstanding on such facilities at March 31, 2003.

PENN ENGINEERING & MANUFACTURING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003

Note 4. Comprehensive Income

Total comprehensive income amounted to $1,192,000 and $244,000 for the three months ended March 31, 2003 and 2002, respectively.

Note 5. Accounting for Stock Options

The Company follows Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and related interpretations in accounting for stock options. Under APB 25, if the exercise price of stock options granted equals or exceeds the market price of the underlying common stock on the date of grant, no compensation expense is recognized. Statement of Financial Accounting Standards No. 123 ("SFAS No. 123") requires pro forma information regarding net income and earnings per share as if the Company had accounted for its employee stock options under the fair value method of SFAS No. 123. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model. For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. Had compensation costs for the Company's plans been determined based on the fair value at the grant date for awards under these plans consistent with the method of SFAS No. 123, the impact on the Company's financial results would have been as follows:

(Dollars in thousands except per share amounts)	2003	2002
Net income as reported	$540	$371
Pro forma compensation cost, net of tax	(279)	(291
Pro forma net income	$261	$80
Basic earnings per share:		
As reported	$.03	$.02
Pro forma	.02	--
Diluted earnings per share:		
As reported	$.03	$.02
Pro forma	.01	--

Note 6. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

PENN ENGINEERING & MANUFACTURING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003

Note 7. Acquisition

On February 5, 2003, the Company acquired all of the issued and outstanding capital stock of Maelux SA and its sole operating company, M.A.E. S.p.A. (MAE) of Offanengo, Italy for cash of $9,941,000, including acquisition related expenses. MAE is a manufacturer of stepper, brush, and brushless DC motors serving customers throughout Europe, and its operations are included with the Company's motor segment. The results of the operations of MAE have been included in the accompanying consolidated statement of income since the acquisition date. The purchase price has been preliminarily allocated to MAE's assets and liabilities as follows; accounts receivable - $4,008,000, inventory - $3,871,000, property - $11,324,000, other current assets - $482,000, goodwill - $3,528,000 and current liabilities including short-term bank debt - $13,272,000.

Additional consideration may be required based on the earnings of MAE through year 2006. Any contingent payments will be recorded as additional purchase price.

Note 8. Segment Information

(Dollars in Thousands)

	THREE MONTHS ENDED March 31, 2003			THREE MONTHS ENDE March 31, 2002
	Fasteners	Distribution	Motors	Faste
Revenues from external customers	$ 23,597	$11,266	$ 9,951	$19,4
Intersegment revenues	6,119		57	4,9
Operating profit	1,329	572	531	7

A reconciliation of combined operating profit for the reportable segments to consolidated income before income taxes is as follows:

	THREE MONTHS ENDED March 31, 2003	March 31,
Total profit for reportable segments	$ 2,432	$ 1,48
Unallocated corporate expenses	(1,354)	(65
Other income (expense)	(386)	(31
Income before income taxes	$ 692	$ 52

PENN ENGINEERING & MANUFACTURING CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2003

Note 9. Earnings Per Share Data

The following table sets forth the computation of basic and diluted earnings per share for the periods indicated.

	THREE MONTHS END March 31, 2003
(In Thousands, except per share data)	
Basic:	
Net income	$ 540
Weighted average shares outstanding	17,383
Basic EPS	$ 0.03

Diluted:	
Net income	$ 540
Weighted average shares outstanding	17,383
Net effect of dilutive stock options-based on treasury stock method	25
Totals	17,408
Diluted EPS	$ 0.03

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

PENN ENGINEERING & MANUFACTURING CORP.
March 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Quarter Ended March 31, 2003 vs. Quarter Ended March 31, 2002

Consolidated net sales for the quarter ended March 31, 2003 were $44.8 million, versus $35.3 million for the quarter ended March 31, 2002, a 26.9% increase. Net sales to customers outside the United States for the quarter ended March 31, 2003 were $15.4 million, versus $12.0 million for the quarter ended March 31, 2002, a 28.3% increase. Net sales for the fastener segment for the quarter ended March 31, 2003 were $23.6 million, versus $19.5 million for the quarter ended March 31, 2002, a 21.0% increase. Motor segment net sales were $9.9 million for the quarter ended March 31, 2003, versus $7.5 million recorded for the quarter ended March 31, 2002, a 32.0% increase. Net sales for the distribution segment for the quarter ended March 31, 2003 were $11.3 million, versus $8.3 million for the quarter ended March 31, 2002, a 36.1% increase.

Within the fastener segment, sales volume increased 24.9% in both the domestic and international markets from the first quarter of 2002 to the first quarter of 2003 while the average selling price declined due to an unfavorable change in product mix. There was no change in per unit selling prices from quarter to quarter. As the business climate improves in all markets served by the Company, distributors are once again slowly replenishing inventory levels. Within the motor segment, the number of motors sold increased approximately 12.2% in the first quarter of 2003 compared to the first quarter of 2002 while the average selling price per motor decreased approximately 2.5%. The motor segment also benefited from the acquisition of M.A.E. S.p.A. in February, 2003, which contributed $1.7 million of net sales to the first quarter of 2003. The decline in the average selling price was mainly due to an increase in the percentage of lower priced brush motors sold in the first quarter of 2003 compared to the first quarter of 2002. Within the distribution division, sales into Europe increased approximately 27.3%, sales into Asia increased approximately 38.6%, and sales into North America increased approximately 3.7% from the first quarter of 2002 to the first quarter of 2003. This segment continues to experience growth internationally as personal computer and electronics companies shift production to take advantage of lower assembly costs.

Consolidated gross profit for the first quarter of 2003 was $12.6 million, versus $11.3 million for the first quarter of 2002, an increase of 11.5%. However, gross profit as a percent of sales decreased from 32.0% in the first quarter of 2002 to 28.1% in the first quarter of 2003. In addition to the lower average selling prices in both the fastener and motor segments, the Company's gross profit was negatively impacted by increased wages, medical expenses, unemployment taxes, and pension expense.

Consolidated selling, general, and administrative expenses for the first quarter of 2003 were $11.5 million, versus $10.5 million for the first quarter of 2002, a 9.5% increase. In addition to the increases for wages and employee benefits mentioned above, the Company also experienced increased charges for software maintenance and liability insurance.

Consolidated net income for the first quarter of 2003 was $540,000, versus $371,000 for the first quarter of 2002. The Company benefited from a lower effective income tax rate in the first quarter of 2003 due to increased foreign activity.

PENN ENGINEERING & MANUFACTURING CORP.
March 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Liquidity and Capital Resources

Cash and cash equivalents at March 31, 2003 were $8.1 million compared to $20.9 million at December 31, 2002 and $9.6 million at March 31, 2002. Working capital totaled $62.1 million at March 31, 2003 compared to $76.0 million at December 31, 2002 and $79.2 million at March 31, 2002.

Net cash of $3.9 million was provided by operating activities for the three months ended March 31, 2003 compared to $6.1 million provided by operating activities for the three months ended March 31, 2002. The Company continued to generate cash from further reductions in overall inventory levels during the first quarter of 2003. However, as sales volume increased, the level of accounts receivable also increased thus decreasing the amount of cash provided from operations.

Net cash used in investing activities totaled $11.2 million for the three months ended March 31, 2003 due mainly to the acquisition of MAE in February of 2003. The Company spent $1.3 million for capital additions in the first quarter of 2003, the bulk of which was for a new heat treat furnace at the Company's manufacturing facility in Ireland.

Net cash used in financing activities totaled $5.7 million for the three months ended March 31, 2003 compared to $4.6 million for the three months ended March 31, 2002. Because of the decreased capital expenditures, the Company repaid short-term debt during both quarters. Despite the economic downturn and its impact on the Company's earnings, the Company's strong cash and working capital position have allowed for the continued payment of cash dividends of $2.1 million for the three months ended March 31, 2003. This represents the payment of the dividend declared in the fourth quarter of 2002, which was accrued as of December 31, 2002, as well as the first quarter 2003 dividend declared in January and paid in March 2003. The Company's earnings per share have historically exceeded dividends declared and paid, and the Company expects this to be the case in the future as the business climate recovers.

The Company's main contractual obligations are the repayment of its short-term debt (see Note 3) and the payment of operating lease commitments covering certain automobiles, office space, and office equipment which are listed in Note 12 to the Company's Annual Report for the year ended December 31, 2002. The Company anticipates that its existing capital resources and cash flow generated from future operations as well as existing short-term lines of credit will enable it to maintain its current level of operations and its planned growth for the foreseeable future.

Critical Accounting Policies

The Company has identified a number of its accounting polices that it has determined to be critical. These critical accounting policies primarily relate to financial statement assertions that are based on the estimates and assumptions of management and the effect of changing those estimates and assumptions could have a material effect on our financial statements. The following is a summary of those critical accounting policies.

Inventories

The Company's domestic fastener inventories are priced on the last-in, first-out (LIFO) method of accounting. Other inventories, representing approximately 74% and 69% of total inventories at March 31, 2003 and December 31, 2002, respectively, are priced on the first-in, first-out (FIFO) method. The original cost of inventory is written-down to its estimated net realizable value based on projected sales of the inventory and the age of the inventory in stock. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required. Provisions for the write-down of inventory are recorded in cost of products sold.

PENN ENGINEERING & MANUFACTURING CORP.
March 31, 2003

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Accounts Receivable

The Company maintains an allowance for doubtful accounts for trade receivables for which collectibility is uncertain. At March 31, 2003 and December 31, 2002, this allowance was approximately $645,000 and $830,000, respectively. In estimating uncollectible accounts, the Company considers factors such as current overall economic conditions, industry-specific economic conditions, and historical and anticipated customer performance. While the Company believes that its procedures effectively address exposure for doubtful accounts, changes in the economy, industry, or specific customer conditions may require adjustments to the allowance.

Goodwill

SFAS No. 142 requires that goodwill no longer be amortized, and instead, be tested for impairment on a periodic basis. At March 31, 2003, the Company had $30,813,000 in goodwill. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgments at many points during the analysis. In estimating the fair value of the reporting units with recognized goodwill for the purposes of the Company's fiscal 2002 financial statements, the Company made estimates and judgments about the future cash flows of these reporting units. The Company's cash flow forecasts were based on assumptions that are consistent with the plans and estimates the Company is using to manage the underlying businesses. In addition, the Company made certain judgments about allocating shared assets to the balance sheet for those reporting units. Based on its estimates, the Company has concluded that there is no impairment of its goodwill as of March 31, 2003. However, changes in these estimates could cause one or more of the reporting units to be valued differently in the future. The Company will evaluate its goodwill again for impairment as of October 1, 2003, or sooner if deemed necessary by management.

Pensions

The Company accounts for its defined benefit pension plan in accordance with SFAS No. 87, "Employers' Accounting for Pensions," which requires that amounts recognized in the financial statements be determined on an actuarial basis. The most significant elements in determining the Company's pension expense are pension liability discount rates and the expected return on plan assets. The pension discount rate reflects the current interest rate at which pension liabilities could be settled at the end of the year. At the end of each year, the Company determines the discount rate to be used to discount plan liabilities. In estimating this rate, the Company looks to rates of return on high-quality, fixed-income investments. At December 31, 2002, the Company determined this rate to be 7.00% and no adjustment to this rate has been made in the quarter ended March 31, 2003. Historically the Company has assumed that the expected long-term rate of return on plan assets will be 8.00%, and this expected rate of return has been used for many years. Although in the last two years pension plan assets have earned substantially less than 8.00%, over the long-term, the Company believes that the return assumption of 8.00% is reasonable, based on expectations about future returns. Should the downward trend in return on pension assets continue, future pension expense would likely increase. The net effect of changes in discount rate, as well as the effect of differences between the expected return and the actual return on plan assets have been deferred in accordance with SFAS No. 87 and will ultimately affect future pension expense.

Derivative Instruments and Hedging

The Company manages risks associated with foreign exchange rates and interest rates with derivative instruments. The Company does not use derivative instruments for trading or speculative purposes and only uses derivatives when there is an underlying exposure. The evaluation of hedge effectiveness is subject to assumptions based on the terms and the timing of the underlying exposures. All derivative instruments are recognized in the Consolidated Balance Sheet at fair value, which is generally based on quoted market prices.

Forward-Looking Statements

Forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 under the Private Securities Litigation Reform Act of 1995, are made throughout this Management's Discussion and Analysis. The Company's results may differ materially from those in the forward-looking statements. Forward-looking statements are based on management's current views and assumptions, and involve risks and uncertainties that significantly affect expected results. For example, operating results may be affected by external factors such as: changes in laws and regulations, changes in accounting standards, fluctuations in demand in markets served by the Company, particularly the computer and telecommunications markets, fluctuations in the cost and availability of the supply chain resources, and foreign economic conditions, including currency rate fluctuations.

Item 3. Quantitative and Qualitative Disclosure About Market Risk.

There have been no material changes to Part 2, Item 7A of the Company's Form 10-K Annual Report for the year ended December 31, 2002.

Item 4. Controls and Procedures.

Within 90 days prior to the date of filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the design and operation of the Company's disclosure controls and procedures. Based on this evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures are effective for gathering, analyzing, and disclosing the information the Company is required to disclose in the reports it files under the Securities Exchange Act of 1934, within the time periods specified in the SEC's rules and forms. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

A control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no expectation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Reference is made to Part 1, Item 3 of the Company's Form 10-K Annual Report for the year ended December 31, 2002.

Item 2. Changes in Securities

Not Applicable

Item 3. Defaults upon Senior Securities

Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5. Other Information

Not Applicable

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits

Exhibit No.	Description
3.1	Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q Quarterly Report for the period ended March 31, 2001.)
3.2	By-laws, as amended (Incorporated by reference to Exhibit 3.2 of the Company's Form 10-K Annual Report for the year ended December 31, 2001.)
99.1	Other Exhibit - Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Other Exhibit - Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

b) Reports on Form 8-K

None.

SIGNATURE

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

Penn Engineering & Manufacturing Corp.

Dated: May 15, 2003

By: /s/ Kenneth A. Swanstrom

Kenneth A. Swanstrom
Chairman/CEO

Dated: May 15, 2003

By: /s/ Mark W. Simon
Mark W. Simon
Senior Vice President/CFO

CERTIFICATION

I, Kenneth A. Swanstrom, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Penn Engineering & Manufacturing Corp. for the quarter ended March 31, 2003;

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 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.

Dated: May 15, 2003

/s/ Kenneth A. Swanstrom

Kenneth A. Swanstrom,
Chairman and Chief Executive Officer

CERTIFICATION

I, Mark W. Simon, certify that:

1) I have reviewed this quarterly report on Form 10-Q of Penn Engineering & Manufacturing Corp. for the quarter ended March 31, 2003;

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 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.

Dated: May 15, 2003

/s/ Mark W. Simon

Mark W. Simon,
Senior Vice President and
Chief Financial Officer

PENN ENGINEERING & MANUFACTURING CORP.
EXHIBIT INDEX

Exhibit No.	Description
3.1	Restated Certificate of Incorporation (Incorporated by reference to Exhibit 3.1 of the Company's Form 10-Q Quarterly Report for the period ended March 31, 2001.)
3.3	By-laws, as amended (Incorporated by reference to Exhibit 3.2 of the Company's Form 10-K Annual Report for the year ended December 31, 2001.)
99.1	Other Exhibit - Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.2	Other Exhibit - Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.