SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2004-08-12** | Period of Report: **2004-06-30**
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FILER

PARAGON TECHNOLOGIES INC

CIK:**90045**| IRS No.: **221643428** | State of Incorp.:**PA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-15729** | Film No.: **04970634**
SIC: **3530** Construction, mining & materials handling machinery & equip

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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 June 30, 2004

Commission File No. 1-15729

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

Delaware	22-1643428
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
600 Kuebler Road, Easton, PA	18040
(Address of Principal Executive Offices)	(Zip Code)
Registrant's Telephone Number, Including Area Code:	610-252-3205

Indicate by checkmark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes |X| No |_|

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

Number of shares of common stock, par value $1.00 per share, outstanding as of August 5, 2004: 4,295,060.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Paragon Technologies, Inc. and Subsidiary
Consolidated Balance Sheets
June 30, 2004 and December 31, 2003
(In Thousands, Except Share Data)

	(UNAUDITED) June 30, 2004	December 31, 2003
Assets		
Current assets:		
Cash and cash equivalents	$ 4,914	5,591
Receivables:		
Trade (net of allowance for doubtful accounts of $126 as of June 30, 2004 and $265 as of December 31, 2003)	4,878	5,277
Notes and other receivables	280	38
Total receivables	5,158	5,315
Costs and estimated earnings in excess of billings	536	521
Inventories:		
Raw materials	1,308	926
Work-in-process	197	106
Finished goods	206	159
Total inventories	1,711	1,191
Deferred income tax benefits	894	1,444
Prepaid expenses and other current assets	474	629
Total current assets	13,687	14,691
Property, plant and equipment, at cost:		
Leasehold improvements	228	228
Machinery and equipment	3,793	3,643
	4,021	3,871
Less: accumulated depreciation	2,669	2,455
Net property, plant and equipment	1,352	1,416
Goodwill	17,657	17,657
Other assets	10	10

Total assets	$ 32,706	33,774

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Balance Sheets
June 30, 2004 and December 31, 2003
(In Thousands, Except Share Data)

	(UNAUDITED) June 30, 2004	December 31, 2003
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,725	2,671
Customers' deposits and billings in excess of costs and estimated earnings	1,273	2,180
Accrued salaries, wages, and commissions	658	304
Income taxes payable	-	894
Accrued product warranty	811	925
Deferred gain on sale-leaseback	165	165
Accrued other liabilities	1,258	2,507
Total current liabilities	7,890	9,646
Long-term liabilities:		
Deferred gain on sale-leaseback	440	523
Deferred income taxes payable	1,852	1,594
Deferred compensation	47	42
Total long-term liabilities	2,339	2,159

Commitments and contingencies

Stockholders' equity:		
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding 4,295,060 shares as of June 30, 2004 and 4,277,595 shares as of December 31, 2003..............	4,295	4,278
Additional paid-in capital....................	7,911	7,586
Retained earnings............................	10,271	10,105
Total stockholders' equity..................	22,477	21,969
Total liabilities and stockholders' equity..	$ 32,706	33,774

</TABLE>

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 and Six Months Ended June 30, 2004 and 2003
(In Thousands, Except Share And Per Share Data)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
<S>	<C>	<C>	<C>	<C>
Net sales..................	$ 9,638	10,983	20,214	19,547
Cost of sales.............	7,304	8,059	15,250	14,419
Gross profit on sales.....	2,334	2,924	4,964	5,128
Selling, general and administrative expenses..............	2,074	1,874	4,117	3,871
Product development costs..................	133	139	205	302
Restructuring charges (credit)...............	-	-	-	(170)
Interest expense..........	-	151	-	369
Interest income...........	(40)	(22)	(51)	(46)

Equity in income of joint venture..........	-	(89)	-	(251)
Loss (gain) on disposition of property, plant and equipment..........	-	2	-	(1,361)
Other income, net.........	(53)	(126)	(99)	(259)
	2,114	1,929	4,172	2,455
Earnings before income taxes...........	220	995	792	2,673
Income tax expense........	91	378	322	1,045
Net earnings..............	$ 129	617	470	1,628
Basic earnings per share..............	$ .03	.14	.11	.38
Diluted earnings per share..............	$ .03	.14	.11	.38
Weighted average shares outstanding.....	4,281,961	4,266,799	4,280,090	4,262,213
Dilutive effect of stock options..........	83,824	89,955	86,192	78,021
Weighted average shares outstanding assuming dilution......	4,365,785	4,356,754	4,366,282	4,340,234

</TABLE>

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 and Six Months Ended June 30, 2004 and 2003
(In Thousands)

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
<S>	<C>	<C>	<C>	<C>
Net earnings.....................	$ 129	617	470	1,628
Other comprehensive income (loss), net of tax:				
Interest rate swap:				

Change in fair value of derivative, net of tax	-	-	-	(8)
Total other comprehensive income (loss)	-	-	-	(8)
Comprehensive income	$ 129	617	470	1,620

</TABLE>

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 Six Months Ended June 30, 2004 and 2003
(In Thousands, Except Share Data)

<TABLE>
<CAPTION>

	Six Months Ended	
	June 30, 2004	June 30, 2003
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	$ 470	1,628
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:		
Depreciation of plant and equipment	214	283
Amortization of intangibles	-	40
Gain on disposition of property, plant and equipment	-	(1,361)
Amortization of deferred gain on sale-leaseback	(83)	(56)
Cash dividend received from joint venture	-	1,000
Equity in income of joint venture	-	(251)
Issuance of common shares as interest payment on subordinated notes	-	90
Change in operating assets and liabilities:		

Receivables	157	(760)
Costs and estimated earnings in excess of billings	(15)	(538)
Inventories	(520)	(137)
Deferred tax expenses	808	216
Prepaid expenses and other current assets	155	185
Accounts payable	1,054	814
Customers' deposits and billings in excess of costs and estimated earnings	(907)	(454)
Accrued salaries, wages, and commissions	354	(81)
Income taxes payable	(894)	291
Accrued product warranty	(114)	52
Accrued other liabilities	(1,249)	(340)
Deferred compensation	5	8
Net cash provided (used) by operating activities	(565)	629
Cash flows from investing activities:		
Proceeds from the disposition of property, plant and equipment	-	2,734
Additions to property, plant and equipment	(150)	(145)
Net cash provided (used) by investing activities	(150)	2,589

</TABLE>

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 Six Months Ended June 30, 2004 and 2003
(In Thousands, Except Share Data)

<TABLE>
<CAPTION>

<S>	Six Months Ended June 30, 2004 <C>	Six Months Ended June 30, 2003 <C>
Cash flows from financing activities:		
Sale of common shares in connection with employee incentive stock option plan	38	8
Decrease in restricted cash	-	865
Repayment of long-term debt	-	(4,975)
Net cash provided (used) by financing activities	38	(4,102)

Decrease in cash and cash equivalents	(677)	(884)
Cash and cash equivalents, beginning of period	5,591	5,385
Cash and cash equivalents, end of period	$ 4,914	4,501
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	$ -	293
Income taxes	$ 611	(370)

</TABLE>

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2004 and 2003

(1) In the opinion of the management of Paragon Technologies, Inc. ("Paragon" or the "Company"), the unaudited interim financial statements furnished reflect all adjustments and accruals that are necessary to present a fair statement of results for the interim periods. The financial statements include the accounts of the Company and Ermanco Incorporated ("Ermanco"), a wholly owned subsidiary company, after elimination of intercompany balances and transactions. Results for interim periods are not necessarily indicative of results expected for the full fiscal year. This quarterly report should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company and the related Notes thereto appearing in our annual report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission. Refer to the Company's Form 10-K for the year ended December 31, 2003 for more complete financial information.

(2) Restructuring

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

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

<TABLE>
<CAPTION>

Beginning Balance	Charge/	Cash	Ending Balance

	January 1	(Credit)	Spending	Reclassification	June 30
2004...........	$ 68	-	(5)	-	63
2003...........	$ 216	(170)	(34)	170	182

The $63,000 restructuring accrual at June 30, 2004 relates to professional fees for the 2001 restructuring that are still expected to be paid and is included in accrued other liabilities.

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

(3) Accrued Product Warranty

The Company's products are warranted against defects in materials and workmanship for varying periods of time depending on customer requirements and the type of system sold, with a typical warranty period of one year. The Company provides an accrual for estimated future warranty costs and potential product liability claims based upon a percentage of cost of sales, ranging from one to two percent depending on the type of system sold, and a detailed review of products still in the warranty period.

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

	Beginning Balance January 1	Additions	Deductions	Ending Balance June 30
2004..................	$ 925	73	(187)	811
2003..................	$ 894	168	(116)	946

(4) Major Segments of Business

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

SI Systems

The Company's Easton, Pennsylvania operation (hereafter referred to as "SI

Systems") is a specialized systems integrator supplying branded automated material handling systems to manufacturing, assembly, order selection, and distribution operations customers located primarily in North America, including the U.S. government. The automated material handling systems are marketed, designed, sold, installed, and serviced by its own staff or subcontractors as labor-saving devices to improve productivity, quality, and reduce costs. Integrated material handling solutions involve both standard and specially designed components and include integration of non-proprietary automated handling technologies so as to provide turnkey solutions for its customers' unique material handling needs. The engineering staff develops and designs computer control programs required for the efficient operation of the systems and for optimizing manufacturing, assembly, and fulfillment operations.

Ermanco

The Company's Spring Lake, Michigan operation (hereafter referred to as "Ermanco") is a manufacturer of Ermanco branded light to medium duty unit handling conveyor products, serving the material handling industry through a worldwide network of approximately 100 experienced material handling equipment distributors and licensees. Ermanco also provides complete conveyor systems for a variety of applications, including distribution and manufacture of computers and electronic products, utilizing primarily its own manufactured conveyor products, engineering services by its own staff or subcontractors, and subcontracted installation services. Ermanco supplies material handling systems and equipment to both national and international markets. Ermanco offers services ranging from the delivery of basic transportation conveyors to turnkey installations of complex, fully automated work-in-process production lines and distribution centers, utilizing sophisticated, custom-designed controls software. Many of Ermanco's sales are to distributors who have non-exclusive agreements with the Company.

The Company's systems vary in configuration and capacity. Historically, system prices across the Company's product lines have ranged from $100,000 to several million dollars per system. Systems and aftermarket sales by brand during the three and six months ended June 30, 2004 and 2003 are as follows (in thousands):

For the three months ended June 30, 2004:
<TABLE>
<CAPTION>

<S>	SI Systems <C>	Ermanco <C>	Total <C>	% of Total Sales <C>
Systems sales..................	$ 1,748	6,646	8,394	87.1%
Aftermarket sales.............	748	496	1,244	12.9%
Total sales...................	$ 2,496	7,142	9,638	100.0%
As a % of total sales.........	25.9%	74.1%	100.0%	

</TABLE>

For the three months ended June 30, 2003:
<TABLE>
<CAPTION>

	SI Systems	Ermanco	Total	% of Total Sales
<S>	<C>	<C>	<C>	<C>
Systems sales.................	$ 2,270	7,548	9,818	89.4%
Aftermarket sales.............	756	409	1,165	10.6%
Total sales...................	$ 3,026	7,957	10,983	100.0%
As a % of total sales.........	27.6%	72.4%	100.0%	

</TABLE>

For the six months ended June 30, 2004:

<TABLE>
<CAPTION>

	SI Systems	Ermanco	Total	% of Total Sales
<S>	<C>	<C>	<C>	<C>
Systems sales.................	$ 3,829	13,788	17,617	87.2%
Aftermarket sales.............	1,580	1,017	2,597	12.8%
Total sales...................	$ 5,409	14,805	20,214	100.0%
As a % of total sales.........	26.8%	73.2%	100.0%	

</TABLE>

For the six months ended June 30, 2003:

<TABLE>
<CAPTION>

	SI Systems	Ermanco	Total	% of Total Sales
<S>	<C>	<C>	<C>	<C>
Systems sales.................	$ 4,877	12,325	17,202	88.0%
Aftermarket sales.............	1,521	824	2,345	12.0%
Total sales...................	$ 6,398	13,149	19,547	100.0%
As a % of total sales.........	32.7%	67.3%	100.0%	

</TABLE>

The Company's products are sold worldwide through its own sales personnel, along with a network of independent distributors and licensees. Domestic and international sales by brand during the three and six months ended June 30, 2004 and 2003 are as follows (in thousands):

For the three months ended June 30, 2004:

<TABLE>
<CAPTION>

	SI Systems	Ermanco	Total	% of Total Sales
<S>	<C>	<C>	<C>	<C>
Domestic sales................	$ 2,204	7,011	9,215	95.6%
International sales...........	292	131	423	4.4%
Total sales...................	$ 2,496	7,142	9,638	100.0%

</TABLE>

Item 1. Financial Statements (Continued)

For the three months ended June 30, 2003:

	SI Systems	Ermanco	Total	% of Total Sales
Domestic sales	$ 2,561	7,270	9,831	89.5%
International sales	465	687	1,152	10.5%
Total sales	$ 3,026	7,957	10,983	100.0%

For the six months ended June 30, 2004:

	SI Systems	Ermanco	Total	% of Total Sales
Domestic sales	$ 4,429	14,542	18,971	93.9%
International sales	980	263	1,243	6.1%
Total sales	$ 5,409	14,805	20,214	100.0%

For the six months ended June 30, 2003:

	SI Systems	Ermanco	Total	% of Total Sales
Domestic sales	$ 5,844	12,236	18,080	92.5%
International sales	554	913	1,467	7.5%
Total sales	$ 6,398	13,149	19,547	100.0%

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

For the Three Months Ended June 30, 2004 (In Thousands):	SI Systems	Ermanco	Total
Sales	$ 2,496	7,142	9,638
Earnings (loss) before interest expense, interest income, and income taxes	(204)	384	180
Total assets	3,538	29,168	32,706
Capital expenditures	27	57	84
Depreciation and amortization expense	29	75	104

<TABLE>

<CAPTION>

For the Three Months Ended June 30, 2003 (In Thousands):	SI Systems	Ermanco	Total
<S>	<C>	<C>	<C>
Sales....................................	$ 3,026	7,957	10,983
Earnings before interest expense, interest income, equity in income of joint venture, gain (loss) on disposition of property, plant and equipment, and income taxes............	183	854	1,037
Gain (loss) on disposition of property, plant and equipment....................	-	(2)	(2)
Total assets.............................	5,214	29,155	34,369
Capital expenditures.....................	8	15	23
Depreciation and amortization expense................................	35	101	136

</TABLE>

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2004 and 2003

<TABLE>
<CAPTION>

For the Six Months Ended June 30, 2004 (In Thousands):	SI Systems	Ermanco	Total
<S>	<C>	<C>	<C>
Sales....................................	$ 5,409	14,805	20,214
Earnings (loss) before interest expense, interest income, and income taxes..........................	(241)	982	741
Total assets.............................	3,538	29,168	32,706
Capital expenditures.....................	52	98	150
Depreciation and amortization expense................................	53	161	214

</TABLE>

<TABLE>
<CAPTION>

For the Six Months Ended June 30, 2003 (In Thousands):	SI Systems	Ermanco	Total
<S>	<C>	<C>	<C>
Sales....................................	$ 6,398	13,149	19,547
Earnings before interest expense, interest income, restructuring credits, equity in income of joint venture, gain (loss) on disposition of property, plant and equipment, and income taxes............	236	978	1,214
Restructuring credits....................	170	-	170
Gain (loss) on disposition of property, plant and equipment....................	1,363	(2)	1,361
Total assets.............................	5,214	29,155	34,369
Capital expenditures.....................	34	111	145
Depreciation and amortization			

expense................................	82	201	283

</TABLE>

(5) Recently Issued Accounting Pronouncements

In December 2003, the Company adopted SFAS No. 132 (revised), "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("FAS 132") as amended. This standard retains the existing disclosures and requires additional disclosures to provide details about pension plan assets, benefit obligations, cash flows, benefit costs, and related information. The disclosure requirements are included in the Company's financial statements.

In December 2003, the FASB issued Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"), which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. The Company is required to apply FIN 46R to variable interest entities ("VIE") created after December 31, 2003. For variable interests in VIE's created before January 1, 2004, FIN 46R will be applied beginning January 1, 2005. The application of FIN 46R is not expected to have a material effect on the Company's financial statements.

(6) Sale-Leaseback

In connection with the February 2003 sale of the Company's Easton, Pennsylvania facility, the Company entered into a leaseback arrangement for 25,000 square feet of office space for five years. The leasing agreement requires fixed monthly rentals of $17,703 (with annual increases of 3%). The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The lease expires on February 21, 2008. The sale-leaseback resulted in a gain of $2,189,000, of which $1,363,000 was recorded as a gain during the three months ended March 31, 2003. The remaining gain of $826,000 was deferred and is being recognized as a reduction in rent expense over the term of the lease. During the three months ended June 30, 2004 and June 30, 2003, $42,000 and $40,000, respectively, of the deferred gain was recognized. During the six months ended June 30, 2004 and June 30, 2003, $83,000 and $56,000, respectively, of the deferred gain was recognized.

(7) Investment in SI/BAKER Joint Venture

On March 1, 1993, the Company and Automated Prescription Systems, Inc. formed a 50/50 joint venture, SI/BAKER, INC. ("SI/BAKER"). In 1998, Automated Prescription Systems, Inc. was renamed McKesson Automation Systems Inc. ("McKesson"). On September 19, 2003, the Company sold its entire ownership interest in SI/BAKER to McKesson and received cash proceeds of $5,600,000. Prior to the sale, the Company received royalty income from SI/BAKER at a rate of 2% of SI/BAKER's gross sales for marketing and sales efforts on behalf of SI/BAKER. The Company accounted for its investment in the joint venture on the equity basis by recognizing its proportionate share (50%) of SI/BAKER's net earnings. The sale resulted in a gain of $4,901,000 in 2003.

(8) Line of Credit

The Company has a line of credit facility which may not exceed $5,000,000, $4,800,000 available, as amended, and is to be used primarily for working capital purposes. Interest on the line of credit facility is at the LIBOR Market Index Rate plus 1.4%.

The line of credit facility contains various non-financial covenants and is secured by all accounts receivables and inventory. The Company was in compliance with all covenants as of June 30, 2004. As of June 30, 2004, the Company did not have any borrowings under the line of credit facility, and the line of credit facility expires effective June 30, 2005.

(9) Long-Term Debt

The Company received $14,000,000 in the form of a seven-year term loan from its principal bank to finance the acquisition of Ermanco on September 30, 1999. The interest rate on the term loan was variable at a rate equal to the three-month LIBOR Market Index Rate plus 2.65%.

Also in connection with the acquisition of Ermanco, on September 30, 1999, the Company issued promissory notes to the stockholders of Ermanco, including notes in the amounts of $1,382,861 and $1,001,382 to Steven Shulman and Leon C. Kirschner, respectively. Mr. Shulman is a director of the Company, and Mr. Kirschner serves as the President of Ermanco and Chief Operating Officer of the Company. The notes, with an original term of seven years, bore interest at an annual rate of 10% through September 30, 2002, and 12% from October 1, 2002 through the prepayment date. Interest on the promissory notes was payable quarterly, in cash or under certain conditions, in the Company's common stock upon approval of the Company's Board of Directors.

In 2003, the Company prepaid all of its outstanding term and subordinated debt.

(10) Pension Benefits

The Company maintains a defined benefit plan for employees covered by its collective bargaining agreement. Retirement benefits are based on the employee's years of service multiplied by the appropriate monthly benefit amount. Employee compensation does not impact pension benefits. The Company's policy is to fund retirement plans in compliance with applicable laws and regulations. Assets of the Company's defined benefit plan are primarily invested in publicly traded common stocks, corporate and government debt securities, mutual funds, and cash or cash equivalents.

Components of Net Periodic Pension Expense (Benefit)

The Company uses the projected unit credit actuarial method to compute pension expense, which includes amortization of past service costs over 30 years. The net periodic pension expense (benefit) and total pension expense (benefit) for the three and six months ended June 30, 2004 and 2003 includes the following components (in thousands):

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
Service cost-benefits earned during the period..................	$ 24	22	47	44
Interest cost on projected benefit obligation................	11	10	22	40
Expected return on plan assets - increase.................	(15)	(13)	(29)	(65)
Recognized net actuarial loss (gain).......................	1	1	2	(4)
Net periodic pension expense.........	21	20	42	15
Curtailment cost (settlement credit)..........................	-	-	-	(144)
Total pension expense (benefit)......	$ 21	20	$ 42	(129)

Contributions

The Company did not make any contributions to its defined benefit plan during the three and six months ended June 30, 2004. The Company expects total pension plan contributions to its defined benefit plan to approximate $41,000 for the year ended December 31, 2004.

(11) Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees and non-employee directors with an exercise price equal to the fair value of the shares at the date of grant. The Company has elected to continue to account for its stock-based compensation plans under the guidelines of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and, accordingly, recognizes no compensation expense on options granted to employees for the stock option grants. The Company recognizes compensation expense on options granted to non-employee directors. To date, the effect of options granted to non-employee directors has been immaterial. Additional disclosure as required under the guidelines of SFAS No. 123, "Accounting for Stock-Based Compensation" ("FAS 123"), as amended by FAS 148, is included below. If the Company had elected to recognize stock-based compensation expense for options granted to employees based on the fair value of granted options at the grant date (as determined under FAS 123), net earnings (in thousands) and basic and diluted earnings per share for the three and six months ended June 30, 2004 and 2003, would have been as follows:

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	June 30, 2004	June 30, 2003	June 30, 2004	June 30, 2003
<S>	<C>	<C>	<C>	<C>
Net earnings, as reported...........	$ 129	617	470	1,628
Deduct: total stock-based employee compensation determined under fair value method, net of related tax effects..........................	(29)	(60)	(63)	(132)
Pro forma net earnings..............	$ 100	557	407	1,496
Earnings per share:				
Basic-- as reported...............	$ .03	.14	.11	.38
Basic-- pro forma..................	$ .02	.13	.10	.35
Diluted-- as reported.............	$ .03	.14	.11	.38
Diluted-- pro forma...............	$ .02	.13	.09	.34

</TABLE>

The above pro forma net earnings and basic and diluted earnings per share were computed using the fair value of granted options at the date of grant as calculated by the Black-Scholes option pricing method. No options were granted to employees during the three and six months ended June 30, 2004 and the year ended December 31, 2003.

(12) Legal Proceedings

In July 2003, a competitor filed an action against the Company in the United States District Court for the District of New Jersey alleging that certain of the Company's products infringed patents held by the competitor and also asserting claims for breach of contract, unjust enrichment, unfair competition, tortious interference with prospective economic advantage, and violation of New Jersey's consumer fraud act as a result of alleged improper use of the competitor's trade secrets, technology, and other proprietary information. Based on these allegations, the competitor was seeking monetary damages and injunctive relief against the Company.

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements (Unaudited)
For the Three and Six Months Ended June 30, 2004 and 2003

In February 2004, a settlement was reached between the Company and the competitor. Under the settlement, the competitor dismissed the action and agreed that the Company's products involved in the litigation are immune from suit for infringement of any of the competitor's intellectual property rights. In exchange, Paragon agreed to dismiss its counterclaims and paid the competitor $1,125,000. Total costs associated with the litigation recognized during 2003, inclusive of settlement costs and legal costs, were $1,375,000.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited consolidated financial statements for the period ended June 30, 2004, and the cautionary statements and consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The discussion and analysis contains "forward-looking statements" based on management's current expectations, assumptions, estimates, and projections. These forward-looking statements involve risks and uncertainties. The Company's actual results could differ materially from those included in these "forward-looking statements" 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.

Business Overview

Paragon Technologies, Inc. provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. The Company has gone to market with a multiple brand, multiple channel strategy under the SI Systems and Ermanco brands.

Founded in 1958, SI Systems material handling solutions are based on core technologies in horizontal transportation and order fulfillment and are aimed at improving productivity for manufacturing, assembly, and distribution center operations. Since 1964, Ermanco conveyor technologies and integrated conveyor systems have been based on core technologies in transportation, accumulation, and sortation and continue to address the needs of the distribution, assembly, and manufacturing marketplace. Ermanco is known as the originator of the line-shaft-driven, live-roller conveyor.

Key Performance Metrics Relevant to the Company

Capacity Utilization

Capacity Utilization, as documented in the Federal Reserve Statistical Release(1), is a key economic indicator that the Company follows as a barometer that may lead to capital spending for material handling systems. Capacity Utilization attempts to measure what percent of available capacity is actually being utilized. Management believes that when Capacity Utilization rises above 80%, as occurred in fiscal 2000, the Company may see an increase in rate of new orders, and therefore, an increase in backlog and sales may also occur. The backlog of orders represents the uncompleted portion of systems contracts along with the value of parts and services from customer purchase orders related to goods that have not been shipped or services that have not been rendered. Backlog is generally indicative of customer demand for the Company's products. As the demand for the Company's products increases, the backlog of orders, rate of new orders, and sales also typically increases. The following table depicts the Company's backlog, orders, sales, and Capacity Utilization for the six months ended June 30, 2004, and for the years ended December 31, 2003, 2002, 2001, and 2000.

<TABLE>
<CAPTION>

(Dollars in Thousands)	Six Months Ended June 30, 2004	Year Ended December 31, 2003	2002	2001	2000
Backlog of orders - Beginning....	$ 10,525	6,924	13,342	22,913	23,685
Add: orders..................	19,514	40,896	31,806	41,181	63,534
Less: sales..................	20,214	37,295	38,224	50,752	64,306
Backlog of orders - Ending.......	$ 9,825	10,525	6,924	13,342	22,913
Capacity Utilization (1)..........	76.7%	74.8%	75.6%	77.7%	82.6%

</TABLE>

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

Current Ratio

The Company's current ratio, which is the ratio of current assets to current liabilities, has been relatively consistent. Management of the Company monitors the current ratio as a measure of determining liquidity and believes the current ratio illustrates that the Company's financial resources are adequate to satisfy its future cash requirements through the next year. The following table depicts the Company's current assets, current liabilities, and current ratio as of June 30, 2004 and as of December 31, 2003, 2002, 2001, and 2000:

<TABLE>
<CAPTION>

(Dollars in Thousands)	As of June 30, 2004	As of December 31, 2003	2002	2001	2000
<S>	<C>	<C>	<C>	<C>	<C>
Current assets...........................	$ 13,687	14,691	15,444	19,200	22,850
Current liabilities......................	7,890	9,646	9,472	13,388	15,193
Current ratio............................	1.73	1.52	1.63	1.43	1.50

</TABLE>

Debt to Equity Ratio

With an emphasis over the past several years on generating cash flows to eliminate the Company's senior and subordinated debt, the Company has eliminated its financial leverage as evidenced by its debt to equity ratio, which is the ratio of total debt to stockholders' equity. Management believes the absence of debt provides greater protection for its shareholders and enhances the Company's ability to obtain additional financing, if required. The following table illustrates the calculation of the debt to equity ratio as of June 30, 2004, and as of December 31, 2003, 2002, 2001, and 2000:

<TABLE>
<CAPTION>

(Dollars in Thousands)	As of June 30, 2004	As of December 31, 2003	2002	2001	2000
<S>	<C>	<C>	<C>	<C>	<C>
Current installments of long-term debt........................	$ -	1,437	2,305	1,521	
Long-term debt...........................	-	-	7,263	9,900	12,780
Total debt...............................	-	-	8,700	12,205	14,301
Total stockholders' equity...............	$ 22,477	21,969	17,829	16,881	16,980

Debt to equity ratio....................	-	-	.49	.72	.84

</TABLE>

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with United States Generally Accepted Accounting Principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and other financial information, including the related disclosure of commitments and contingencies at the date of our financial statements. Actual results may, under different assumptions and conditions, differ significantly from our estimates.

We believe that our accounting policies related to revenue recognition on system sales, warranty, inventories, allowance for doubtful accounts, and asset impairments as described below, are our "critical accounting policies." These policies have been reviewed with the Audit Committee of the Board of Directors and are discussed in greater detail below.

Revenue Recognition on Systems Sales

Revenues on systems contracts, accounted for in accordance with SOP 81-1 of the American Institute of Certified Public Accountants, are recorded on the basis of the Company's estimates of the percentage of completion of individual contracts. Gross margin is recognized on the basis of the ratio of aggregate costs incurred to date to the most recent estimate of total costs. As contracts may extend over one or more years, revisions in cost and profit estimates during the course of the work are reflected in the accounting periods in which the facts requiring revisions become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued. As of June 30, 2004, there were no contracts that are anticipated to result in a loss.

The Company believes that it has the ability to reasonably estimate the total costs and applicable gross profit margins at the inception of the contract for all of its systems contracts. However, where cost estimates change, there could be a significant impact on the amount of revenue recognized. The Company's failure to estimate accurately can result in cost overruns which will result in the loss of profits if the Company determines that it has significantly underestimated the costs involved in completing contracts. The Company has not had any significant cost overruns resulting in loss of profits during the three and six months ended June 30, 2004.

Accrued Product Warranty

The Company's products are warranted against defects in materials and workmanship for varying periods of time depending on customer requirements and the type of system sold, with a typical warranty period of one year. The Company provides an accrual for estimated future warranty costs and potential product liability claims based upon a percentage of cost of sales, ranging from one to two percent depending on the type of system sold, and a detailed review of products still in the warranty period. Historically, the level of warranty reserve has been appropriate based on management's assessment of estimated future warranty claims. However, if unanticipated warranty issues arise in the future, there could be a significant impact on the recorded warranty reserve. The recorded warranty reserve as of June 30, 2004 was $811,000.

Inventories

Inventories are valued at the lower of average cost or market. The Company provides an inventory reserve determined by a specific identification of individual slow moving items and other inventory items based on historical experience. The reserve is considered to be a write-down of inventory to a new cost basis. Upon disposal of inventory, the cost and related inventory reserve are removed from the accounts. Historically, the level of inventory reserve has been appropriate based on management's assessment of estimated future inventory disposals.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts determined by a specific identification of individual accounts and other accounts based on historical experience. The Company writes off receivables upon determination that no further collections are probable. Historically, receivable write offs have not had a material impact on the Company's financial statements.

Asset Impairments

On January 1, 2002, the Company adopted SFAS No. 142, analyzed its goodwill for impairment, and makes similar evaluations on a periodic basis. During 2003, the Company performed the required impairment test of goodwill and determined that there was no impairment. In assessing the recoverability of the Company's goodwill, the Company must make assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective asset. If these estimates or their

Asset Impairments (Continued)

related assumptions change the fair value of the asset in the future, the Company may be required to record impairment charges. The book value of goodwill as of June 30, 2004 was $17,657,000.

(a) Results of Operations-- Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003

Earnings Summary

The Company had net earnings of $470,000 (or $0.11 basic earnings per share) for the six months ended June 30, 2004, compared to net earnings of $1,628,000 (or $0.38 basic earnings per share) for the six months ended June 30, 2003. The decrease in net earnings was primarily due to the prior year comparable period containing:

- a pre-tax gain on the sale-leaseback of the Company's Easton, Pennsylvania facility of $1,363,000;

- a restructuring credit of $170,000 pertaining to the final settlement of the remaining pension obligations associated with the Company's terminated pension plan;
- equity in income of the Company's former SI/BAKER joint venture of $251,000; and
- royalty income from the Company's former SI/BAKER joint venture of $168,000.

Offsetting the above decrease in net earnings for the six months ended June 30, 2004 was a reduction of $369,000 in interest expense as a result of the elimination of the Company's senior and subordinated debt in September 2003.

Net Sales and Gross Profit on Sales

<TABLE>
<CAPTION>

	2004	2003
Net sales	$ 20,214,000	19,547,000
Cost of sales	15,250,000	14,419,000
Gross profit on sales	$ 4,964,000	5,128,000
Gross profit as a percentage of sales	24.6%	26.2%

</TABLE>

The net sales increase was primarily attributable to an increase in Ermanco branded sales of $1,656,000, partially offset by a decline of approximately $989,000 in SI Systems branded sales. The increase in Ermanco branded sales was primarily attributable to a larger backlog of Ermanco branded orders entering fiscal 2004 when compared to the backlog of Ermanco branded orders entering fiscal 2003. The decline in SI Systems branded sales was associated with delays in customer buying decisions and competitive pressures.

Gross profit, as a percentage of sales, for the six months ended June 30, 2004, when compared to the six months ended June 30, 2003, was unfavorably impacted by approximately 0.6% due to competitive pricing pressures and product mix, and by approximately 1.0% due primarily to the lower sales volume experienced during the second quarter of 2004 to cover fixed overhead costs.

(a) Results of Operations -- Six Months Ended June 30, 2004 Compared to the Six Months Ended June 30, 2003 (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $4,117,000 were higher by $246,000 for the six months ended June 30, 2004 than for the six months ended June 30, 2003. The increase was comprised of the addition of resources aimed at expanding the customer base and an increase in salaries and fringe benefits totaling $283,000, an increase in marketing expenses primarily associated with product promotion and marketing research totaling $42,000, and severance costs of $115,000. Partially offsetting these increases were collections of $172,000 during the second quarter of 2004 on accounts receivable previously recognized as uncollectible.

Product Development Costs

Product development costs, including patent expense, of $205,000 was lower by $97,000 for the six months ended June 30, 2004 than for the six months ended June 30, 2003. Development programs in the six months ended June 30, 2004 were aimed at enhancements to the Company's sortation and accumulation conveyor technologies, and improvements to the Company's Order Picking, Fulfillment, and Replenishment systems. Development programs in the six months ended June 30, 2003 included the new NBA-23(TM) narrow belt accumulation conveyor, computer software for warehousing and distribution center operations, and improvements to the Company's Order Picking, Fulfillment, and Replenishment systems.

Restructuring Charges (Credits)

In 2001, the Company restructured its business operations, including curtailment of a defined benefit plan. In February 2003, the Company settled its remaining pension obligations by purchasing annuities and correspondingly recorded a restructuring credit of $170,000.

Interest Expense

In September 2003, the Company repaid all of its outstanding senior and subordinated debt. The Company had no interest expense in the six months ended June 30, 2004, as compared to $369,000 of interest expense for the six months ended June 30, 2003.

Equity in Income of Joint Venture

In September 2003, the Company sold its entire ownership interest in SI/BAKER, INC. During the six months ended June 30, 2003, equity in income of the SI/BAKER joint venture was $251,000.

Gain on Disposition of Property, Plant and Equipment

The gain on the disposition of property, plant and equipment of $1,361,000 for the six months ended June 30, 2003 was primarily attributable to the sale-leaseback of the Company's Easton, Pennsylvania facility in February 2003. The sale-leaseback resulted in a total gain of $2,189,000, of which $1,363,000 was recorded in 2003. The remaining gain of $826,000 was deferred and is being recognized as a reduction in rent expense over the five-year term of the lease.

Other Income, Net

In September 2003, the Company sold its entire ownership interest in SI/BAKER, INC. The unfavorable variance of $160,000 in other income, net for the six months ended June 30, 2004 as compared to the six months ended June 30, 2003 was primarily attributable to revenue-based royalty income from the Company's SI/BAKER recognized during the first half of 2003.

(a) Results of Operations -- Six Months Ended June 30, 2004 Compared to the

Six Months Ended June 30, 2003 (Continued)

Income Tax Expense

The Company recognized income tax expense of $322,000 during the six months ended June 30, 2004 compared to income tax expense of $1,045,000 during the six months ended June 30, 2003. Income tax expense was generally recorded at statutory federal and state tax rates.

(b) Results of Operations - Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003

Earnings Summary

The Company had net earnings of $129,000 (or $0.03 basic earnings per share) for the three months ended June 30, 2004, compared to net earnings of $617,000 (or $0.14 basic earnings per share) for the three months ended June 30, 2003. The decrease in net earnings was primarily due to the prior year comparable period containing:

- o higher revenues and gross profit of $1,345,000 and $590,000, respectively, as described below;
- o lower selling, general and administrative expenses by $200,000 as described below;
- o equity in income of the Company's former SI/BAKER joint venture of $89,000; and
- o royalty income from the Company's former SI/BAKER joint venture of $85,000.

Offsetting the above decrease in net earnings for the three months ended June 30, 2004 was a reduction of $151,000 in interest expense as a result of the elimination of the Company's senior and subordinated debt in September 2003.

With the exception of the following Statement of Operations captions, changes in the second quarter of 2004 compared to the prior year were consistent with those previously noted above for the six-month period.

Net Sales and Gross Profit on Sales

<TABLE>
<CAPTION>

<S>	2004 <C>	2003 <C>
Net sales..	$ 9,638,000	10,983,000
Cost of sales..	7,304,000	8,059,000
Gross profit on sales................................	$ 2,334,000	2,924,000
Gross profit as a percentage of sales................	24.2%	26.6%

</TABLE>

The net sales decrease was primarily attributable to a decrease in Ermanco branded sales of $815,000 and a decline of $530,000 in SI Systems branded sales. The decrease in Ermanco branded sales was primarily attributable to the prior year comparable period containing a greater amount of sales due to progress made on orders received during the first half of 2003 based on contract completion requirements. The decline in SI Systems branded sales was associated with delays in customer buying decisions and competitive pressures.

Gross profit, as a percentage of sales, for the three months ended June 30, 2004 was unfavorably impacted by approximately 3.3% due to the lower sales volume to cover fixed overhead costs for the three months ended June 30, 2004. Partially offsetting the aforementioned unfavorable variance by approximately

1.0% was the favorable performance on several contracts initiated in the prior year that were completed during the second quarter of 2004 and product mix.

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

(b) Results of Operations - Three Months Ended June 30, 2004 Compared to the Three Months Ended June 30, 2003 (Continued)

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $2,074,000 were higher by $200,000 for the three months ended June 30, 2004 than for the three months ended June 30, 2003. The increase was comprised of the addition of resources aimed at expanding the customer base and an increase in salaries and fringe benefits totaling $120,000, an increase in marketing expenses primarily associated with product promotion and marketing research totaling $107,000, and severance costs of $115,000. Partially offsetting these increases were collections of $172,000 during the second quarter of 2004 on accounts receivable previously recognized as uncollectible.

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased to $4,914,000 at June 30, 2004 from $5,591,000 at December 31, 2003. The decrease resulted primarily from:

- cash used by operating activities totaling $565,000; and
- purchases of capital equipment of $150,000.

Cash used by operating activities of $565,000 during the six months ended June 30, 2004 as compared to cash provided by operating activities of $629,000 during the six months ended June 30, 2003 decreased primarily due to the payment of settlement and legal costs of $1,197,000 associated with an action against the Company by a competitor relating to the Company's intellectual property. Also contributing to cash provided by operating activities during the six months ended June 30, 2003 was the receipt of a federal income tax refund of $1,093,000 and the receipt of a $1,000,000 cash dividend from the SI/BAKER joint venture.

In 2003, the Company repaid all of its outstanding term debt and subordinated debt.

The Company's line of credit facility may not exceed $5,000,000, $4,800,000 available, as amended, and is to be used primarily for working capital purposes. The line of credit facility contains various non-financial covenants and is secured by all accounts receivables and inventory. As of June 30, 2004, the Company did not have any borrowings under the line of credit facility, and the line of credit facility expires effective June 30, 2005.

The Company anticipates that its financial resources, consisting of cash generated from operations and its line of credit, will be adequate to satisfy its future cash requirements through the next year. Sales volume, as well as cash liquidity, may experience fluctuations due to the unpredictability of future contract sales and the dependence upon a limited number of large contracts with a limited number of customers.

The Company plans to consider strategic alternatives to increase shareholder value, including expansion opportunities as they arise, although the ongoing operating results of the Company, 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.

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

Contractual Obligations

Ermanco's operations are located in a 94,000 square foot steel building in Spring Lake, Michigan. The building is leased from a limited liability company that is affiliated with the Company through a common director and officer of the Company, Messrs. Shulman and Kirschner. The leasing agreement requires fixed monthly rentals of $33,283 through September 30, 2004. Thereafter, monthly rentals are $29,310 (with annual increases of 2.5%). The terms of the lease require the payment by Ermanco of all taxes, insurance, and other ownership related costs of the property. The lease, as amended on April 1, 2004, expires on September 30, 2008.

In connection with the February 2003 sale of the Company's Easton, Pennsylvania facility, the Company entered into a leaseback arrangement for 25,000 square feet of office space for five years. The leasing agreement requires fixed monthly rentals of $17,703 (with annual increases of 3%). The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The lease expires on February 21, 2008.

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

Future contractual obligations and commercial commitments at June 30, 2004 as noted above are as follows:

<TABLE>
<CAPTION>

	Payments Due by Period					
	Total	2004	2005	2006	2007	2008
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Contractual obligations:						
Operating leases........	$ 2,498,000	348,000	636,000	590,000	606,000	318,000
Total.........	$ 2,498,000	348,000	636,000	590,000	606,000	318,000

</TABLE>
<TABLE>
<CAPTION>

	Total Amounts Committed	Amount of Commitment Expiration Per Period 2004	2005	2006	2007	2008
<S>	<C>	<C>	<C>	<C>	<C>	<C>

Other commercial commitments:						
Letters of credit........	$200,000	-	200,000	-	-	-
Line of credit........	-	-	-	-	-	-

</TABLE>

Off-Balance Sheet Arrangements

As of June 30, 2004, the Company had no off-balance sheet arrangements in the nature of guarantee contracts, retained or contingent interests in assets transferred to unconsolidated entities (or similar arrangements serving as credit, liquidity, or market risk support to unconsolidated entities for any such assets), or obligations (including contingent obligations) arising out of variable interests in unconsolidated entities providing financing, liquidity, market risk, or credit risk support to the Company, or that engage in leasing, hedging, or research and development services with the Company.

Recently Issued Accounting Pronouncements

The adoption of SFAS No. 132 (revised) and FASB Interpretation No. 46 did not have a material impact on the Company's financial statements.

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 earnings, liquidity, financial condition, review of strategic alternatives, and other 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 factors over which the Company has no control, including the strength of domestic and foreign economies, sales growth, competition, and certain costs increases; or (3) if the factors on which the Company's conclusions are based do not conform to the Company's expectations.

Quantitative and Qualitative Disclosures about Market Risk

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 are material to its results of operations.

Item 4. Controls and Procedures

(a) An evaluation was performed under the supervision and with the participation of the Company's management, including its Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of June 30, 2004. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported as specified in Securities and Exchange Commission rules and forms.

(b) There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of such controls that occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II -- OTHER INFORMATION

Item 1. Legal Proceedings

In July 2003, a competitor filed an action against the Company in the United States District Court for the District of New Jersey alleging that certain of the Company's products infringed patents held by the competitor and also asserting claims for breach of contract, unjust enrichment, unfair competition, tortious interference with prospective economic advantage, and violation of New Jersey's consumer fraud act as a result of alleged improper use of the competitor's trade secrets, technology, and other proprietary information. Based on these allegations, the competitor was seeking monetary damages and injunctive relief against the Company.

In February 2004, a settlement was reached between the Company and the competitor. Under the settlement, the competitor dismissed the action and agreed that the Company's products involved in the litigation are immune from suit for infringement of any of the competitor's intellectual property rights. In exchange, Paragon agreed to dismiss its counterclaims and paid the competitor $1,125,000.

The Company is involved in various other claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's consolidated financial position, results of operations, or liquidity.

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

The Company's Annual Meeting of Stockholders was held on June 23, 2004 with the following item being submitted to a vote of stockholders:

1. The election of five directors to the Board of Directors.

Details of the proposal noted above was provided to stockholders in the form of a Notice of Annual Meeting and Proxy Statement mailed on May 18, 2004, with such solicitation being in accordance with Regulation 14 of the Securities and Exchange Act of 1934.

There was no solicitation in opposition to the management's nominees listed in the Proxy Statement, and all the management's nominees were elected.

The voting results on the election of directors are set forth as follows:

1. Election of Directors:

Name of Nominee	Votes For	Votes Withheld	Non-Voting
L. Jack Bradt	3,389,436	478,721	409,438
Theodore W. Myers	3,626,995	241,162	409,438
Anthony W. Schweiger	3,630,869	237,288	409,438
Steven Shulman	3,394,582	473,575	409,438
Leonard S. Yurkovic	3,409,035	459,122	409,438

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10.27 Amendment to Lease Agreement by and between Spring Lake Properties Holdings, L.C. and Ermanco Incorporated dated April 1, 2004 (filed herewith).

31.1 Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by Leonard S. Yurkovic, President and CEO (filed herewith).

31.2 Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by Ronald J. Semanick, Chief Financial Officer and Vice President - Finance and Treasurer (filed herewith).

32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Leonard S.

Yurkovic, President and CEO (filed herewith).

32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Ronald J. Semanick, Chief Financial Officer and Vice President - Finance and Treasurer (filed herewith).

(b) The following reports on Form 8-K were filed during the quarter ended June 30, 2004:

A Current Report on Form 8-K was furnished on May 12, 2004 announcing the Company's financial results for the first quarter ended March 31, 2004.

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/ Leonard S. Yurkovic

Leonard S. Yurkovic
President & CEO

/s/ Ronald J. Semanick

Ronald J. Semanick
Chief Financial Officer

Dated: August 12, 2004

Exhibit 10.27

AMENDMENT TO LEASE AGREEMENT

THIS LEASE AMENDMENT ("Amendment") is made this 1st day of April, 2004 by and between SPRING LAKE PROPERTIES HOLDINGS, L.C., a Michigan limited liability company ("Lessor") with an office at 6870 Grand Haven Road, Spring Lake, Michigan 49456 and ERMANCO INCORPORATED, a Michigan corporation ("Lessee"), with an office at 6870 Grand Haven Road, Spring Lake, Michigan 49456.

The Lessor and Lessee entered into that certain lease agreement dated September 30, 1999 ("Lease") for the 93,792 square foot building and land located in the City of Norton Shores, County of Muskegon, Michigan ("Premises") as more particularly described on Exhibit A to the Lease.

The Lessor and Lessee now desire to amend, modify and supplement certain provisions of the Lease as set forth below.

NOW THEREFORE, in consideration of the mutual covenants and conditions herein contained, as well as for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, for themselves, their heirs, distributes, executors, administrators, legal representatives, successors and assigns, agree as follows:

1. Lessor and Lessee hereby agree that the Lease is amended, supplemented and modified as follows:

(a) the Term of the Lease pursuant to Article II shall be extended to September 30, 2008.

(b) the Renewal Term pursuant to Article II shall be modified as follows:

Lessee shall have the right and option to renew this lease for one (1) additional five (5) year period ("Renewal Term"), immediately ensuing after the September 30, 2008 expiration date of the Lease by notifying Lessor in writing not less than one hundred eighty (180) days before the September 30, 2008 expiration date of the Lease of the Lessee's intention to exercise its option to renew.

(c) effective October 1, 2004, the Base Rent pursuant to Article III, Section 3.01(a)(ii) shall be payable monthly as follows:

<TABLE>
<CAPTION>

Lease Period	Sq. Ft.	Rate	Annual Rent	Monthly Rent
<S>	<C>	<C>	<C>	<C>
10/1/04 - 9/30/05	93,792	$3.75	$ 351,720.00	$29,310.00

10/1/05 - 9/30/06	93,792	3.84	360,513.00	30,042.75
10/1/06 - 9/30/07	93,792	3.94	369,525.83	30,793.82
10/1/07 - 9/30/08	93,792	4.04	378,763.97	31,563.67
	Total		$1,460,522.80	

</TABLE>

(d) Exhibit B to the Lease shall be deleted in its entirety.

2. Except as amended or modified by this Amendment, the provisions of the Lease shall remain in full force and effect.

3. This Amendment shall be binding upon and inure to the benefit of the parties hereto, their heirs, successors and assigns.

4. This Amendment shall be governed by and construed in accordance with the provisions of the laws of the State of Michigan.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment on the day and year first above written.

ATTEST:

By: /s/ Ronald J. Semanick
Name: Ronald J. Semanick
Title: CFO

LESSOR: Spring Lake Properties Holdings L.C. a Michigan limited liability company

By: /s/ Leon C. Kirschner
Name: Leon C. Kirschner
Title: Member

ATTEST:

By: /s/ Ronald J. Semanick
Name: Ronald J. Semanick
Title: CFO

LESSEE: Ermanco Incorporated, a Michigan corporation

By: /s/ Leon C. Kirschner
Name: Leon C. Kirschner
Title: President

Exhibit 31.1

SECTION 302 CERTIFICATION

I, Leonard S. Yurkovic, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paragon Technologies, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's

board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: August 12, 2004

/s/ Leonard S. Yurkovic

Leonard S. Yurkovic
President and CEO

Exhibit 31.2

SECTION 302 CERTIFICATION

I, Ronald J. Semanick, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Paragon Technologies, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's

board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

Date: August 12, 2004

/s/ Ronald J. Semanick

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

Exhibit 32.1

CERTIFICATION OF PRESIDENT AND CEO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Paragon Technologies, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leonard S. Yurkovic, President and CEO of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Leonard S. Yurkovic

Leonard S. Yurkovic
President and Chief Executive Officer
August 12, 2004

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Paragon Technologies, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ronald J. Semanick, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Ronald J. Semanick

Ronald J. Semanick
Chief Financial Officer and Vice President - Finance and Treasurer
August 12, 2004