



**ANNUAL REPORT
FOR THE FISCAL YEAR ENDED
DECEMBER 31, 2010**

PARAGON TECHNOLOGIES, INC.

600 Kuebler Road
Easton, PA 18040
Telephone: 610-252-3205
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I.R.S. Employer Identification No.

22-1643428

CUSIP No.

69912T108

ISSUER'S EQUITY SECURITIES

COMMON STOCK

\$1.00 Par Value

20,000,000 Common Shares Authorized

**1,554,310 Shares Issued and Outstanding
as of the Filing of this Annual Report**

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Part A — General Company Information

Item I. The exact name of the issuer and its predecessors (if any):

The name of the issuer is Paragon Technologies, Inc. The issuer was formerly known as SI Handling Systems, Inc. until April 5, 2000.

Item II. The address of the issuer's principal executive offices:

The Company's contact information is as follows:
Paragon Technologies, Inc.
Attention: Leonard S. Yurkovic, Acting CEO
600 Kuebler Road
Easton, PA 18040-9201
Telephone: (610) 252-3205
Fax: (610) 252-3102
Website: www.ptgamex.com
E-Mail: info@ptgamex.com

Item III. The jurisdiction(s) and date of the issuer's incorporation or organization:

The issuer is a Delaware corporation, incorporated on November 21, 2001.

The issuer was originally incorporated in Pennsylvania on June 18, 1958. The issuer changed its state of incorporation from Pennsylvania to Delaware on November 21, 2001.

Part B — Share Structure

Item IV. The exact title and class of securities outstanding:

Class of Stock: Common Stock
Trading Symbol: PGNT
CUSIP No.: 69912T108

Item V. Par or stated value and description of the security:

A. The par value of the Company's Common Stock is \$1.00 per share.

Item VI. The number of shares or total amount of the securities outstanding for each class of securities authorized:

Year-End Date	Common Shares		
	December 31, 2010	December 31, 2009	December 31, 2008
Number of shares authorized	20,000,000	20,000,000	20,000,000
Number of shares outstanding	1,554,310	1,564,310	1,786,229
Shares owned by directors and officers	435,415	152,589	161,089
Freely tradable shares (<i>public float</i>)	1,118,895	1,411,721	1,625,140
Total number of beneficial shareholders	410	502	682
Total number of shareholders of record	235	242	256

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As of December 31, 2010, there were 1,554,310 shares of the Company's Common Stock issued and outstanding. As of the filing of this Annual Report, there were 1,554,310 shares of the Company's Common Stock issued and outstanding.

Part C — Business Information

Item VII. The name and address of the transfer agent:

The contact information for the Company's Transfer Agent is as follows:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
Telephone: (718) 921-8293
Fax: (718) 921-8334
Internet: www.amstock.com

The transfer agent is registered under the Securities Exchange Act of 1934, as amended, and is registered by the Securities and Exchange Commission.

Item VIII. The nature of the issuer's business:

A. Business Development

Paragon Technologies, Inc. ("Paragon" or the "Company"), based out of Easton, Pennsylvania, provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. The Company's capabilities include horizontal transportation, rapid dispensing, order fulfillment, computer software, sortation, integrating conveyors and conveyor systems, and aftermarket services. The Company is a Delaware corporation, incorporated on November 21, 2001. The Company was originally incorporated in Pennsylvania on June 18, 1958. The Company changed its state of incorporation from Pennsylvania to Delaware on November 21, 2001.

The Company (also referred to as "SI Systems") is a specialized systems integrator supplying SI Systems' branded automated material handling systems to manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government. SI Systems' branded products are utilized to automate the movement or selection of products and are often integrated with other automated equipment such as conveyors and robots. SI Systems is brought to market as two individual brands, SI Systems' Order Fulfillment Systems (hereafter referred to as "SI Systems OFS") and SI Systems' Production & Assembly Systems (hereafter referred to as "SI Systems PAS"). Each brand has its own focused sales force, utilizing the products and services currently available or under development within the Company.

The SI Systems OFS sales force focuses on providing order fulfillment systems to order processing and distribution operations, which may incorporate the Company's proprietary DISPENSIMATIC[®], MightyMAC[™] (Mobile A-Frame Cart), and automated order fulfillment solutions and specialized software from the SYNTHESIS[™] Software Suite. SYNTHESIS[™] is comprised of eight proprietary software groups, with 26 extendible software modules that continually assess real-time needs and deploy solutions to accurately facilitate and optimize planning, warehousing, inventory, routing, and order fulfillment within the distribution process. The SI Systems PAS sales force focuses on providing automated material handling systems to manufacturing and assembly operations and the U.S. government, which may incorporate the Company's LO-TOW[®], CARTRAC[®], and Slmon[™] horizontal transportation technologies.

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The Company's 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. The Company's integrated material handling solutions involve both standard and specially designed components and include integration of non-proprietary automated handling technologies to provide turnkey solutions for its customers' unique material handling needs. The Company's engineering staff develops and designs computer control programs required for the efficient operation of the systems and for optimizing manufacturing, assembly, and fulfillment operations.

The Company's business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites. The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in the Company's sales and earnings occur with increases or decreases in major installations.

1. The form of organization of the issuer:

Paragon Technologies, Inc. is a Delaware corporation.

2. The year that the issuer (or any predecessor) was organized:

The Company was originally incorporated in Pennsylvania on June 18, 1958 as SI Handling Systems, Inc.

On April 5, 2000, SI Handling Systems, Inc. changed its name to Paragon Technologies, Inc.

The Company changed its state of incorporation from Pennsylvania to Delaware on November 21, 2001.

3. The issuer's fiscal year end date:

The Company's fiscal year end is December 31.

4. State whether the issuer (or any predecessor) has been in bankruptcy, receivership or any similar proceeding:

Paragon Technologies, Inc. has never been in bankruptcy, receivership or any similar proceeding.

5. Describe any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets:

During the last three years, the Company did not have any material reclassification, merger, consolidation, or purchase or sale of a significant amount of assets.

6. Describe any default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the issuer to make payments:

During the last three years, the Company did not have a default of the terms of any note, loan, lease, or other indebtedness or financing arrangement requiring the Company to make payments.

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7. Describe any change of control:

Paragon Technologies, Inc. has never had any change of control.

8. Describe any increase of 10% or more of the same class of outstanding equity securities:

During the last three years, the Company did not have any increase of 10% or more of the same class of outstanding equity securities.

9. Describe any past, pending or anticipated stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization:

During the last three years, the Company did not have any stock splits, stock dividends, cash dividends, recapitalizations, mergers, acquisitions, spin-offs, or reorganizations. The Company has no present intention to declare cash dividends. The Company continues to review opportunities with the goal of maximizing resources, increasing stockholder value, and pursuing strategic alternatives. Although the Company enters into preliminary discussions and non-disclosure agreements from time to time, the Company does not have any material definitive agreements in place. There is no assurance that the Company will be able to consummate any strategic alternatives.

10. Describe a delisting of the issuer's securities by any securities exchange or deletion from the OTC Bulletin Board:

Except as set forth below, Paragon Technologies, Inc.'s securities have not been delisted by any securities exchange or The Nasdaq Stock Market or deleted from the OTC Bulletin Board.

However, on April 30, 2009, the Company filed with the NYSE Amex and the Securities and Exchange Commission ("SEC") a Form 25 relating to the voluntary delisting and deregistration of its common stock. Accordingly, trading on the Company's common stock on the NYSE Amex was suspended at the close of business on May 8, 2009, and its common stock was delisted from the NYSE Amex on May 11, 2009. On May 11, 2009, the Company filed with the SEC a Form 15, Notice of Termination and Suspension of Duty to File, to terminate its reporting obligations under the Securities Exchange Act of 1934, as amended.

On May 11, 2009, the Company's common stock began trading on the Pink Sheets under the symbol "PGNT." From March 9, 2000 to May 11, 2009, the Company's common stock was traded on the NYSE Amex (formerly known as the American Stock Exchange) under the symbol "PTG." Prior to March 9, 2000, the Company's common stock was traded on The Nasdaq Stock Market under the symbol "SIHS."

11. Describe any current, past, pending or threatened legal proceedings or administrative actions either by or against the issuer that could have a material effect on the issuer's business, financial condition, or operations and any current, past or pending trading suspensions by a securities regulator. State the names of the principal parties, the nature and current status of the matters, and the amounts involved:

During the last three years, there have not been and there are no current, past, pending or threatened legal proceedings or administrative actions either by or against the Company that could have a material effect on the Company's business, financial condition, or operations.

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B. Business of Issuer

Paragon Technologies, Inc. ("Paragon" or the "Company"), based out of Easton, Pennsylvania, provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. The Company's capabilities include horizontal transportation, rapid dispensing, order fulfillment, computer software, sortation, integrating conveyors and conveyor systems, and aftermarket services. The Company is a Delaware corporation, incorporated on November 21, 2001. The Company was originally incorporated in Pennsylvania on June 18, 1958. The Company changed its state of incorporation from Pennsylvania to Delaware on November 21, 2001.

The Company (also referred to as "SI Systems") is a specialized systems integrator supplying SI Systems' branded automated material handling systems to manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government. SI Systems' branded products are utilized to automate the movement or selection of products and are often integrated with other automated equipment such as conveyors and robots. SI Systems is brought to market as two individual brands, SI Systems' Order Fulfillment Systems (hereafter referred to as "SI Systems OFS") and SI Systems' Production & Assembly Systems (hereafter referred to as "SI Systems PAS"). Each brand has its own focused sales force, utilizing the products and services currently available or under development within the Company.

The SI Systems OFS sales force focuses on providing order fulfillment systems to order processing and distribution operations, which may incorporate the Company's proprietary DISPENSIMATIC[®], MightyMAC[™] (Mobile A-Frame Cart), and automated order fulfillment solutions and specialized software from the SYNTHESIS[™] Software Suite. SYNTHESIS[™] is comprised of eight proprietary software groups, with 26 extendible software modules that continually assess real-time needs and deploy solutions to accurately facilitate and optimize planning, warehousing, inventory, routing, and order fulfillment within the distribution process. The SI Systems PAS sales force focuses on providing automated material handling systems to manufacturing and assembly operations and the U.S. government, which may incorporate the Company's LO-TOW[®], CARTRAC[®], and Slmon[™] horizontal transportation technologies.

The Company's 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. The Company's integrated material handling solutions involve both standard and specially designed components and include integration of non-proprietary automated handling technologies to provide turnkey solutions for its customers' unique material handling needs. The Company's engineering staff develops and designs computer control programs required for the efficient operation of the systems and for optimizing manufacturing, assembly, and fulfillment operations.

The Company's business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites. The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in the Company's sales and earnings occur with increases or decreases in major installations.

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1. The issuer's primary and secondary SIC Codes:

Primary SIC Code: 3530
Secondary SIC Code: N/A

2. Describe if the issuer has never conducted operations, is in the development stage, or is currently conducting operations:

The Company's business, since inception, is a provider of a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. The Company's capabilities include horizontal transportation, rapid dispensing, order fulfillment, computer software, sortation, integrating conveyors and conveyor systems, and aftermarket services.

3. Describe whether the issuer is or has at any time been a "shell company":

The Company is not and never has been a "shell company" pursuant to SEC Rule 405 of the Securities Act of 1933.

4. State the names of any parent, subsidiary, or affiliate of the issuer, and its business purpose, its method of operation, its ownership, and whether it is included in the financial statements attached to this disclosure statement:

Paragon Technologies, Inc. is a Delaware corporation. There is no parent, subsidiary, or affiliate of the Company.

5. Describe the effect of existing or probable government regulations on the business:

The Company does not foresee any significant costs and/or effects of compliance with existing or probable government regulations on the business.

6. Provide an estimate of the amount spent during each of the last two fiscal years on research and development activities, and, if applicable, the extent to which the cost of such activities are borne directly by customers:

Total product development costs, including patent expense, were \$201,000 and \$137,000 for the years ended December 31, 2010 and 2009, respectively. The Company pursues continual research of new product development opportunities and integration capabilities, with a concentrated effort to improve existing technologies that improve customer efficiency.

Development programs in the year ended December 31, 2010 were primarily aimed at improvements to the Company's Order Fulfillment systems technologies. Order Fulfillment development efforts during the year ended December 31, 2010 included voice picking, the MightyMAC™ (Mobile A-Frame Cart), and DISPENSIMATIC® hardware and software enhancements aimed at promoting workplace efficiencies for the Company's customers. MightyMAC™ was introduced to the market in the fourth quarter of 2010. MightyMAC™, a smaller version of the DISPENSIMATIC® with fewer channels, is portable, scalable, and also automatically dispenses product directly into totes being transported on an adjacent conveyor.

Development programs in the year ended December 31, 2009 were primarily aimed at improvements to the Company's Order Fulfillment systems technologies. Order Fulfillment development efforts during the year ended December 31, 2009 included DISPENSIMATIC® hardware and software enhancements aimed at promoting workplace efficiencies for the Company's customers.

The cost of research and development activities are not borne directly by the Company's customers.

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7. Describe the costs and effects of compliance with environmental laws (federal, state, and local):

The Company is not currently subject to compliance with any federal, state or local environmental laws pertaining to its products.

8. Disclose the number of total employees and the number of full-time employees:

As of December 31, 2010, the Company employed three executive officers and 33 office employees, including salespersons, draftspersons, and engineers. The Company also operates as a project manager in connection with the installation, integration, and service of its products generally utilizing subcontractors. All of the Company's 36 employees are full-time employees.

Item IX. The nature of products or services offered:

A. Describe the Company's principal products or services, and their markets:

SI Systems' Branded Products

SI Systems' branded products encompass the horizontal transport and order fulfillment families of products.

Horizontal Transport

LO-TOW[®]. LO-TOW[®] is an in-floor towline conveyor. These conveyor systems are utilized in the automation of manufacturing, assembly, unit load handling in distribution environments, and large newspaper roll delivery systems. Industries served include the automotive, recreational and utility vehicle, distribution centers, radiation chambers, engine assembly, truck assembly, construction vehicles, newspaper facilities, farm machinery, and the U.S. government, primarily the United States Postal Service and the Defense Logistics Agency. This simple, yet reliable component design allows for a variety of configurations well suited for numerous applications. It provides reliable and efficient transportation for unit loads of all types in progressive assembly or distribution applications. Because SI Systems' LO-TOW[®] tow chain used with the system operates at a minimal depth, systems can be installed in existing one-story and multi-story buildings as well as newly constructed facilities. Controls sophistication varies depending upon the application. More complex systems include programmable logic controllers ("PLCs"), personal computers for data collection and operator interface, radio frequency identification and communication, bar code identification, and customer host computer communication interface. The Company believes that SI Systems is the largest supplier of in-floor towline systems in the United States. A typical LO-TOW[®] system requires approximately six months to engineer, manufacture, and install.

CARTRAC[®]. CARTRAC[®] spinning tube conveyor systems are used in the automation of production and assembly operations throughout various industries. Some of the industries served are automotive, aerospace, appliance, defense, electronics, machine tools, radiation chambers, castings, transportation, and foundries. As part of a fully computerized manufacturing system, CARTRAC[®] offers zero pressure accumulation, high speeds, and smooth acceleration/deceleration capabilities for both light and heavy load capabilities that are well suited for the manufacturing environment where high volume product rate and short cycle time are critical. Some of the more sophisticated systems require a high degree of accuracy and positioning repeatability. For these applications, CARTRAC[®] carriers are positioned in workstations holding very tight tolerances.

Slmon[™]. The Company introduced the Slmon[™] automatic guided cart ("AGC") conveyor system in 2009 as the latest addition to the Company's horizontal transport product offerings. The Slmon[™] AGC conveyor system is easy to install and modify, and is ideal for simple, repetitive, point-to-point movement of material. These flexible conveyor systems are utilized in the

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automation of manufacturing, assembly, and unit load handling in distribution environments. Industries served include the automotive, recreational and utility vehicle, distribution centers, and engine assembly. This simple, yet reliable component design allows for a variety of configurations well suited for numerous applications. It provides reliable and efficient transportation for unit loads of all types in progressive assembly or distribution applications. A typical Slmon™ system requires approximately six months to engineer, manufacture, and install.

Order Fulfillment Systems

DISPENSIMATIC® , MightyMAC™ , SYNTHESIS® , and Automated Order Fulfillment Solutions

DISPENSIMATIC® and SYNTHESIS® offer ideal solutions for reducing inefficiencies, labor-intensive methods, and long-time deliveries where high volume of small orders must be fulfilled. Industries served include pharmaceutical, entertainment, vision, nutritional supplements, health and beauty aids, cosmetics, and an assortment of various soft goods.

SYNTHESIS® is a proprietary intelligent order fulfillment software suite that can achieve picking accuracy of up to 99.9%, increase order throughput up to 70%, and reduce return volumes by as much as 80%. Comprised of eight software groups with 26 extendible software modules, SYNTHESIS® continuously assesses real-time needs and deploys solutions to accurately facilitate and optimize planning, warehousing, inventory, routing, and order fulfillment within the distribution process. In installations worldwide, SYNTHESIS® integrates intelligent software programming with innovative conveyance technology to perform high-volume, full-case or split-case, item-oriented distribution smarter, faster, and leaner.

SI Systems' branded products include a variety of DISPENSIMATIC® models for automated order fulfillment, where volume, speed, accuracy, and efficiency are of the essence. The Pick-to-Belt, Totes Through, and Buckets Through are solutions that provide ultra-high throughput for loose-pick individual items. Additionally, the DISPENSIMATIC® allows a package to be dispensed into a tote or carton, thus achieving a high degree of accuracy and efficiency in order fulfillment.

MightyMAC™ was introduced to the market in the fourth quarter of 2010 to target a wider base of potential customers. MightyMAC™, a smaller version of the DISPENSIMATIC® with fewer channels, is portable, scalable, and also automatically dispenses product directly into totes being transported on an adjacent conveyor.

SI Systems' capabilities also include gantry picking, which involves the fulfillment of orders as well as inventory replenishment, utilizing automated gantry/robotic technology. Certain customer applications and order profiles are well suited for this solution.

SI Systems' branded technologies include automated picking and replenishment solutions that complement DISPENSIMATIC®, thus offering the Company's customers a comprehensive solution in order fulfillment where volume of orders are processed with a high degree of accuracy. These highly sophisticated systems require customization tailored to each individual customer's requirements.

A typical DISPENSIMATIC®, SYNTHESIS®, and automated order fulfillment system requires approximately six months to engineer, manufacture, and install.

Aftermarket Spare Parts, Equipment and Support Service

The Company provides spare and replacement parts and equipment for all of its products, along with support contract services for its order fulfillment systems.

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B. Describe the distribution methods of the products or services:

Sales and Marketing

The Company goes to market with a multiple brand, multiple channel strategy under the SI Systems OFS and SI Systems PAS brands. Each brand has its own focused sales force, utilizing the products and services currently available or under development within the Company.

Sales of the Company's SI Systems branded products are made through its own internal sales personnel. The systems are sold on a fixed-price basis. Generally, contract terms provide for progress payments and a portion of the purchase price is withheld by the customer until the system has been accepted. Customers include major manufacturers, technology organizations, and distributors of a wide variety of products, as well as the U.S. government. A significant amount of business is derived from existing customers through the sale of additional systems, additions to existing systems, plus parts and service. The Company is not substantially dependent upon any one customer; however, the Company's business is dependent upon a limited number of customers.

C. Discuss the status of any publicly announced new product or service:

None at this time.

D. Discuss the competitive business conditions, the issuer's competitive position in the industry, and methods of competition:

Competition

The material handling industry includes many products, devices, and systems competitive with those of the Company. As in the case of other technically oriented companies, there is a risk that the Company's business may be adversely affected by technological advances made by its competitors. However, the Company believes that its competitive advantages include its reputation in the material handling field and proven capabilities in the markets in which it concentrates. Its disadvantages include its relatively small size as compared to certain of its larger competitors.

There are three principal competitors supplying equipment similar to the LO-TOW[®] system. Competition in this field is primarily in the areas of price, experience, systems performance, and features. SI Systems is a leading provider of LO-TOW[®] systems, based on Conveyor Equipment Manufacturers Association (CEMA) United States market statistics.

The CARTRAC[®] system competes with various alternative materials handling technologies, including automated guided vehicle systems, electrified monorail and pallet skid systems, power and free conveyor systems, and belt and roller conveyor systems, that may be obtained through a variety of suppliers. However, the Company believes that the CARTRAC[®] system's advantages, such as controlled acceleration and deceleration, high speed, individual carrier control, and right angle turning, are significant distinctive features providing competitive advantages in applications requiring these features.

There are three principal competitors supplying equipment similar to the SImon[™] automatic guided cart ("AGC") conveyor system. The Company's SImon[™] AGC conveyor system also competes with various alternative materials handling technologies, including automated guided vehicle systems, electrified monorail and pallet skid systems, power and free conveyor systems, and belt and roller conveyor systems, that may be obtained through a variety of suppliers. However, the Company believes that the SImon[™] AGC conveyor system's advantages, such as flexibility, scalability, ease of installation and modifications, quiet operation, and economical price are significant distinctive features providing competitive advantages in applications requiring these features.

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The DISPENSIMATIC[®] system competes primarily with manual picking methods, and it also competes with similar devices provided by two other system manufacturers, along with various alternative picking technologies, such as general purpose "broken case" automated order fulfillment systems that have been sold for picking items of non-uniform configuration. The Company believes that the DISPENSIMATIC[®] system provides greater speed and accuracy than manual methods of collection and reduces damage, pilferage, and labor costs.

Proprietary SYNTHESIS[®] software competes with other middleware that has been developed for order fulfillment logistics by a variety of software and/or hardware suppliers. The Company believes that SYNTHESIS[®] is superior to other software offerings because it is based on a proven track record of successful applications that manage distribution centers by accepting order data from the customer's host business system and efficiently optimizing the full range of order fulfillment functions down to control of individual pieces of material handling equipment.

E. Describe the sources and availability of raw materials and the names of principal suppliers:

Raw Materials

The Company has not been adversely affected by energy or raw materials shortages. The principal raw material purchased by the Company is steel, which the Company purchases from various suppliers. Steel prices have risen in recent years; however, the Company has been able to pass these increased costs on to its customers. The Company also purchases components from various suppliers that are incorporated into the Company's finished products.

F. Discuss the dependence on one or a few major customers:

In the year ended December 31, 2010, three customers individually accounted for sales of 27.4%, 22.1%, and 10.4%. In the year ended December 31, 2009, one customer accounted for sales of 28.7%. In the year ended December 31, 2008, two customers individually accounted for sales of 19.9% and 18.6%. No other customers accounted for over 10% of sales.

The Company's business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites. The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in the Company's sales and earnings occur with increases or decreases in major installations.

G. Discuss patents, trademarks, licenses, franchises, concessions, royalty agreements or labor contracts, including their duration:

Patents, Copyrights, and Licenses

The Company seeks patents, trademarks, and other intellectual property rights to protect and preserve its proprietary technology and its rights to capitalize on the results of research and development activities. The Company seeks copyright protection for its proprietary software. The Company also relies on trade secrets, know-how, technological innovations, and licensing opportunities to provide it with competitive advantages in its market and to accelerate new product introductions.

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It is the Company's policy to require its professional and technical employees and consultants to execute confidentiality agreements at the time that they enter into employment or consulting relationships with the Company. These agreements provide that all confidential information developed by, or known to, the individual during the course of the individual's relationship with the Company, is to be kept confidential and not disclosed to third parties except in specific circumstances. In the case of employees, the agreement provides that all inventions conceived by the employee during his tenure at the Company will be the exclusive property of the Company.

The Company holds four patents, all of which have been issued in the United States, with lives that expire from April 2019 through October 2023; in addition, the Company has one pending patent application. Significant design features of the LO-TOW[®], DISPENSIMATIC[®], MightyMAC[™], and Sortation systems are covered by patents or patent applications in the United States and pertain mainly to the following areas: loading and unloading products, vehicle and carrier design, and order selection and order fulfillment system designs.

CARTRAC[®], ROBOLITE[®], ROBODRIVE[®], ROBORAIL[®], SWITCH-CART[®], LO-TOW[®], DISPENSIMATIC[®], ACCUPIC[®], ETV[®], SI[®], SYNTHESIS[®], DC XCELLERATOR[®], and Paragon Technologies[®] are registered trademarks of the Company. SI Planograph[™], Slmon[™], and MightyMAC[™] are trademarks of the Company.

The Company does not believe that the loss of any one or group of related patents, trademarks, or licenses would have a material adverse effect on the overall business of the Company.

H. Discuss the need for any government approval of principal products or services and the status of any requested government approvals:

The Company is not currently subject to any government approval of principal products or services.

Item X. Discuss the nature and extent of the issuer's facilities:

Issuer's Facility

The Company's contact information is as follows:

Paragon Technologies, Inc.
600 Kuebler Road
Easton, PA 18040-9201
Telephone: (610) 252-3205
Fax: (610) 252-3102
Website: www.ptgamex.com
E-Mail: info@ptgamex.com

The Company's principal office is located in Easton, Pennsylvania. In connection with the February 21, 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 required fixed monthly rental payments of \$19,345 during the fifth year of the lease, which ran from February 21, 2007 through February 20, 2008. The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The leasing agreement is secured with a \$200,000 letter of credit. On November 14, 2007, the Company amended the lease agreement to extend the term of the lease for a period of five years, commencing immediately upon the February 21, 2008 expiration date of the original term of the lease. The amended lease agreement requires fixed monthly rental payments of \$18,000 for five years through the February 20, 2013 expiration date

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of the lease. The amended lease agreement incorporates the terms and conditions of the original lease agreement.

The Company believes that its Easton, Pennsylvania facility is adequate for its current operations. The Company's operations experience fluctuations in workload due to the timing and receipt of new orders and customer job completion requirements. Currently, the Company's facility is adequate to handle these fluctuations. In the event of an unusual demand in workload, the Company supplements its internal operations with outside subcontractors that perform services for the Company in order to complete contractual requirements for its customers. The Company will continue to utilize internal personnel and its own facility and, when necessary and/or cost effective, outside subcontractors to complete contracts in a timely fashion in order to address the needs of its customers.

Part D — Management Structure and Financial Information

Item XI. Provide the name of the chief executive officer, members of the board of directors, as well as control persons. Provide the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders:

A. Officers and Directors:

Provide the following information for each of the issuer's executive officers, directors, general partners and control persons, as of the date of this information statement:

- 1. Full name;**
- 2. Business address;**
- 3. Employment history (which must list all previous employers for the past 5 years, positions held, responsibilities and employment dates);**
- 4. Board memberships and other affiliations;**
- 5. Compensation by the issuer; and**
- 6. Number and class of the issuer's securities beneficially owned by each such person.**

The business address for all executive officers and directors is:

Paragon Technologies, Inc.
600 Kuebler Road
Easton, PA 18040-9201
Telephone: (610) 252-3205
Fax: (610) 252-3102
Website: www.ptgamex.com
E-Mail: info@ptgamex.com

Information concerning the Company's directors is as follows:

Name, Other Positions or Offices With The Company and Principal Occupation for Past Five Years	Director Since	Age
Hesham M. Gad	2010	32

Hesham M. Gad is the Managing Partner of the Gad Partners Funds, a concentrated value oriented investment partnership based in Athens, GA. Mr. Gad is also the founder of Gad Properties, LLC, a private real estate investment company focusing on the student housing market. Prior to managing the Gad Partners Fund, he ran the Gad Investment Group from 2002 to 2005. Mr. Gad is the author of the internationally published book,

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Name, Other Positions or Offices With The Company and Principal Occupation for Past Five Years	Director Since	Age
"The Business of Value Investing: Six Steps to Buying Companies Like Warren Buffett." Mr. Gad holds a BBA in Finance and MBA in Finance and Economics from the University of Georgia.		
Ronald J. Izewski	2008	53
Ronald J. Izewski currently serves as the Senior Vice President ("SVP") and Chief Financial Officer ("CFO") of Just Born, Inc., a privately owned confectionery manufacturer of jellybeans, marshmallows, and other candy products. Mr. Izewski joined Just Born in 1995 as Vice President of the Finance Division, assumed the role of CFO in 2002, and was promoted to SVP/CFO in 2007. From 1984 to 1995, Mr. Izewski held several financial leadership positions, including Vice President and General Manager of the Donruss Trading Cards Division, at the Leaf Candy Company. From 1978 to 1984, Mr. Izewski was an Audit Supervisor in the Chicago, Illinois office of Coopers & Lybrand, a public accounting firm. Mr. Izewski graduated from Southern Illinois University with a Bachelor's Degree in Accounting and is a Certified Public Accountant.		
Peter H. Kamin.....	2010	48
Peter H. Kamin has spent the last 25 years as an active investor in both public and private businesses. Mr. Kamin is a Founding Member and Managing Partner of ValueAct Capital Partners, L.P. ValueAct Capital Partners invests on behalf of universities, foundations, and endowments in the public and private U.S. equity markets. Prior to founding ValueAct Capital Partners in 2000, Mr. Kamin founded and managed Peak Investment L.P. Peak Investment L.P. was a limited partnership, organized to make investments in a select number of domestic public companies. In 2000, the capital held in Peak Investment was distributed to Mr. Kamin and his various family entities. Mr. Kamin continues to direct the investment of these assets primarily into small public and private investment opportunities. Prior to founding Peak Investment L.P., Mr. Kamin was a Partner with Morningside, N.A., Ltd., the U.S. private equity operation for a wealthy Hong Kong-based family. Mr. Kamin began his investment career in 1984 at Fidelity Management and Research. Mr. Kamin is presently a director of Seitel Inc., Insurance Auto Auctions, Inc., and KAR Auction Services. Mr. Kamin previously served as either Chairman or Director of LeCroy Corporation, Hanover Compressor Company, Exterran Holdings, Inc., SIRVA, Inc., OneSource Information Services, Inc., Data Transmission Network Corp., TFC Enterprises, Inc., Eskimo Pie Corporation, and ACME United Corp. He has a B.A. from Tufts University and an M.B.A. from Harvard Business School.		
Theodore W. Myers.....	2002	67
Theodore W. Myers is the Chairman of the Board of the Company, a position he has held since June 2002. Mr. Myers retired from Tucker Anthony Sutro, an investment banking firm where, from 1991 to 2000, he was First Vice President and Branch Manager of the Phillipsburg, New Jersey satellite office. After graduating from Fairleigh Dickinson University in 1966 with a B.S. in Marketing and Finance, he served in the Armed Forces during the Vietnam era and subsequently returned to work as a National Bank Examiner		

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Name, Other Positions or Offices With The Company and Principal Occupation for Past Five Years	Director Since	Age
for the Controller of the Currency until he became an internal auditor for Dean Witter Reynolds in 1971. Prior to his employment with Tucker Anthony, he was a Vice President with Prudential Bache and Vice President/Manager of the Flemington, New Jersey office of Paine Webber from 1985 to 1991, and from 1977 to 1985, he was an Assistant Vice President with Thompson McKinnon Securities and Dean Witter Reynolds.		
Robert J. Schwartz.....	2008	73
Robert J. Schwartz is the founder and President of Land Equity Inc., a real estate firm located in Lebanon, New Jersey. For over 30 years, Land Equity Inc. has specialized in commercial and industrial land sales. Mr. Schwartz began his career in real estate in 1967 and has established his company in key markets of Massachusetts, New Jersey, Pennsylvania, and Maryland. Mr. Schwartz graduated from Fairleigh Dickinson University with a B.S. in International Marketing.		
Leonard S. Yurkovic.....	2002	73
Leonard S. Yurkovic returned to the Company as Acting CEO on March 1, 2007. Mr. Yurkovic started with the Company in 1979 as Vice President – Finance. Throughout the 1980s, Mr. Yurkovic was appointed to several executive-level positions at the Company, having been named President and Chief Operating Officer in 1985, Managing Director of European Operations in 1987, and then President and CEO in 1988. Mr. Yurkovic initially retired from the Company as CEO and a member of the Board of Directors in 1999. Mr. Yurkovic returned to the Company as President and CEO in October 2003 and retired from the Company as President and CEO on December 31, 2005. Prior to his tenure at the Company, Mr. Yurkovic was Division Controller at The Harris Corporation, Champlain, New York. A former Lieutenant in the United States Navy, Mr. Yurkovic graduated from Lehigh University with his MBA in Finance and the United States Naval Academy with a B.S. in Engineering.		

The aforementioned directors of the Company hold their positions as directors until the next Annual Meeting of Stockholders.

The names, ages, and offices with the Company of its executive officers are as follows:

<u>Name</u>	<u>Age</u>	<u>Office</u>
Leonard S. Yurkovic	73	Acting Chief Executive Officer and Director
William J. Casey	67	Executive Vice President of the Company and President and Chief Operating Officer of SI Systems
Ronald J. Semanick	49	Vice President - Finance, Chief Financial Officer, Treasurer, and Corporate Secretary

Information regarding Mr. Yurkovic is provided above.

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Mr. Casey whose career with the Company spans 43 years, rejoined the Company on December 29, 2003 as Vice President of SI Systems Production & Assembly after a two and a half year absence. Mr. Casey was appointed Executive Vice President of the Company and President of SI Systems Production & Assembly on October 14, 2005. Mr. Casey was appointed President and Chief Operating Officer of SI Systems effective March 1, 2007. From July 2001 to December 2003, Mr. Casey held an executive position with The Casey Group, an information technology firm specializing in providing Enterprise Services in IT management, integration, and outsourcing. From 1965 to 2001, Mr. Casey held a variety of senior management positions at Paragon Technologies, Inc. including Executive Vice President, Vice President Sales and Marketing, and Director of Sales. Mr. Casey is a well known leader in the material handling industry. A member of the Conveyor Equipment Manufacturers Association (CEMA) for over 29 years, acting as Board President in 2002-2003, Mr. Casey has served on its Board of Directors since 1997 and chaired numerous committees. Mr. Casey received a Bachelor's Degree in Business and Commerce from Rider University.

Mr. Semanick was appointed Vice President - Finance, Chief Financial Officer, and Treasurer of the Company on May 10, 2000, and was appointed Corporate Secretary of the Company on July 13, 1994. Previously, Mr. Semanick held the positions of Controller, Manager of Financial Accounting, Senior Financial Accountant, and Financial Accountant. Prior to joining the Company on August 26, 1985, Mr. Semanick was employed as a Certified Public Accountant by Arthur Andersen & Company of Philadelphia, Pennsylvania. Mr. Semanick was also the Treasurer and Corporate Secretary of SI/BAKER, INC., Paragon's former 50/50 joint venture company with McKesson Automation Systems Inc., until it was sold to McKesson Automation Systems Inc. on September 19, 2003. Mr. Semanick received a Bachelor's Degree in Accounting from Moravian College and his MBA in Finance from Wilkes University. Mr. Semanick is a Certified Public Accountant in Pennsylvania, and is a member of the Pennsylvania and American Institutes of Certified Public Accountants and the Institute of Management Accountants.

Employment Agreements

Although the Board of Directors of the Company believes that employment contracts do not ensure or guarantee that executive officers' efforts, attention, and commitment are aligned with maximizing the success of the Company and stockholder value, it is recognized that under certain circumstances these contracts are necessary. Currently, there are no employment contracts with any of the Company's executive officers. The Board of Directors of the Company continues to be diligent in considering when employment contracts are necessary and in the best interest of the Company and the Company's stockholders.

Security Ownership of Certain Beneficial Owners and Management

To the best of the Company's knowledge, the following table sets forth certain information as of March 18, 2011 (unless otherwise noted) regarding the ownership of common stock (i) by each person known by the Company to be the beneficial owner of more than five percent (5%) of the outstanding common stock, (ii) by each director of the Company, (iii) by the executive officers of the Company, and (iv) by all current executive officers and directors of the Company as a group. Unless otherwise stated, the beneficial owners exercise sole voting and/or investment power over their shares.

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Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Right to Acquire Under Options Exercisable Within 60 Days	Percent of Class (2)
Common Stock, Par Value \$1.00 Per Share	Hesham M. Gad	101,688	-	6.5%
Common Stock, Par Value \$1.00 Per Share	Ronald J. Izewski	1,000	-	*
Common Stock, Par Value \$1.00 Per Share	Peter H. Kamin	181,138	-	11.7%
Common Stock, Par Value \$1.00 Per Share	Theodore W. Myers (3)	26,200	-	1.7%
Common Stock, Par Value \$1.00 Per Share	Robert J. Schwartz	85,019	-	5.5%
Common Stock, Par Value \$1.00 Per Share	Leonard S. Yurkovic	20,500	-	1.3%
Common Stock, Par Value \$1.00 Per Share	Ronald J. Semanick	17,370	2,500	1.3%
Common Stock, Par Value \$1.00 Per Share	William J. Casey	2,500	2,500	*
Common Stock, Par Value \$1.00 Per Share	All current directors and executive officers as a group (8 persons) (3)	435,415	5,000	28.2%

*Represents less than 1%.

- (1) Unless otherwise indicated, the address for each stockholder listed on the table is c/o Paragon Technologies, Inc., 600 Kuebler Road, Easton, Pennsylvania 18040.
- (2) The percentage for each individual, entity or group is based on the aggregate number of shares outstanding as of March 18, 2011 (1,554,310) and all shares issuable upon the exercise of outstanding stock options held by each individual or group that are presently exercisable or exercisable within 60 days after March 18, 2011.
- (3) Includes 13,100 shares held by members of Mr. Myers' immediate family. Mr. Myers disclaims beneficial ownership of such shares.

Stockholding Guidelines

The Board of Directors believes that it is in the best interests of stockholders for the Company's directors and executive officers to own a minimum required amount of the Company's common stock, thereby aligning their interests with the interests of stockholders. Accordingly, on March 8, 2006, the Board of Directors implemented stock ownership guidelines applicable for all of the Company's directors and executive officers. The current stock ownership guidelines are as follows:

- The CEO of the Company is required to own at least 15,000 shares of the Company's common stock and all other executive officers and directors of the Company are required to own at least 10,000 shares of the Company's common stock.

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- The common stock ownership requirement may be reached over a time period not exceeding the later of (1) five years from the March 8, 2006 policy inception date, or (2) five years from the date the director or executive officer begins his or her tenure as a director or executive officer with the Company.
- Directors of the Company are required to make an investment in the Company's common stock prior to or at the time of their election or appointment to the Company's Board of Directors, as long as such purchases do not violate the Company's insider trading policy.

COMPENSATION OF DIRECTORS

Directors who are also employees of the Company receive no additional remuneration for their services as directors. The Chairman of the Board of Directors and other non-employee directors receive an annual retainer of \$20,000 and \$10,000, respectively; a fee of \$2,000 for each Board meeting attended; a fee of \$1,000 for each Board meeting held by telephone conference; a fee of \$600 per day for all Company-related activities undertaken at the request of the Chairman of the Board or the Chief Executive Officer of the Company; and a fee of \$300 per interview for all Company-related activities undertaken in connection with interviewing qualified candidates to fill vacancies in key positions within the Company. The Chairman of the Audit Committee receives an annual retainer of \$4,000, and the Chairman of the Compensation Committee receives an annual retainer of \$2,000. There are no additional directors' fees paid for serving on the Committees of the Board of Directors. Directors are also reimbursed for their customary and usual expenses incurred in attending Board and Committee Meetings including those for travel, food, and lodging.

**DIRECTOR COMPENSATION TABLE
FOR THE YEAR ENDED DECEMBER 31, 2010**

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation (\$)	Total (\$)
Hesham M. Gad (1)	\$ 6,500	-	-	-	-	-	\$ 6,500
Ronald J. Izewski	24,600	-	-	-	-	-	24,600
Peter H. Kamin (1)	6,500	-	-	-	-	-	6,500
Theodore W. Myers	32,600	-	-	-	-	-	32,600
Robert J. Schwartz	20,600	-	-	-	-	-	20,600
Leonard S. Yurkovic (2)	-	-	-	-	-	-	-
Total	\$ 90,800	-	-	-	-	-	\$ 90,800

- (1) Messrs. Gad and Kamin were elected to the Board of Directors of the Company effective October 6, 2010.
- (2) Mr. Yurkovic was appointed Acting CEO of the Company on March 1, 2007. He is not eligible for director compensation while in this position.
-

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COMPENSATION OF EXECUTIVE OFFICERS

Set forth below is certain information relating to compensation received by the Company's Principal Executive Officer or PEO (its CEO), Principal Financial Officer or PFO (its Chief Financial Officer), and other most highly compensated executive officers of the Company in 2010, 2009, and 2008 (collectively, the "Named Executives"). No executive officer has an employment agreement with the Company.

SUMMARY COMPENSATION TABLE

Name and Principal Positions	Year	Salary (\$ (1))	Bonus (\$)	Stock Awards (\$ (2))	Option Awards (\$ (3))	All Other Compensation (\$ (4))	Total (\$)
<u>Principal Executive Officer</u>	2010	40,800	-	-	-	3,846	44,646
Leonard S. Yurkovic	2009	60,231	-	-	-	7,234	67,465
Acting CEO (5)	2008	126,000	-	-	-	21,274	147,274
<u>Principal Financial Officer</u>							
Ronald J. Semanick							
Vice President – Finance, Chief Financial Officer, and Treasurer (6)	2010	95,145	-	-	-	-	95,145
	2009	107,867	-	7,299	1,896	2,901	119,963
	2008	124,373	-	6,256	1,625	14,575	146,829
William J. Casey	2010	133,875	-	-	-	-	133,875
Executive Vice President (7)	2009	151,779	-	7,299	1,896	3,431	164,405
	2008	175,000	-	6,256	1,625	15,800	198,681

- (1) This column includes employee pre-tax contributions to the Company's 401(k) retirement savings plan.
- (2) This column reflects the dollar amount recognized for financial accounting reporting purposes for the fiscal years ended December 31, 2010, 2009, and 2008, in accordance with SFAS No. 123(R) pursuant to the Company's 1997 Equity Compensation Plan and, therefore, includes amounts from awards granted in and, if applicable, prior to 2006. There were no stock awards during the years ended December 31, 2010, 2009, and 2008, and no further grants are available under the 1997 Equity Compensation Plan. These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the Named Executives.
- (3) This column reflects the dollar amount recognized for financial accounting reporting purposes for the fiscal years ended December 31, 2010, 2009, and 2008, in accordance with SFAS No. 123(R) pursuant to the Company's 1997 Equity Compensation Plan and, therefore, includes amounts from awards granted in and, if applicable, prior to 2006. There were no stock options granted during the years ended December 31, 2010, 2009, and 2008, and no further grants are available under the 1997 Equity Compensation Plan. These amounts reflect the Company's accounting expense for these awards, and do not correspond to the actual value that will be recognized by the Named Executives. For further information, please refer to the Company's "Stock Options and Nonvested Stock" in Note 4 of the Notes to Financial Statements included in this Annual Report for the Year Ended December 31, 2010.

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(4) This column includes the following additional compensation:

Name	Year	Auto Allowance (\$ (a))	Company Contributions to 401(k) Plan (\$ (b))	CEO Meals and Lodging Expenses (\$ (c))	All Other Compensation Total (\$)
Leonard S. Yurkovic	2010	-	-	3,846	3,846
	2009	1,600	969	4,665	7,234
	2008	9,600	5,040	6,634	21,274
Ronald J. Semanick	2010	-	-	-	-
	2009	1,600	1,301	-	2,901
	2008	9,600	4,975	-	14,575
William J. Casey	2010	-	-	-	-
	2009	1,600	1,831	-	3,431
	2008	9,600	6,200	-	15,800

(a) This column includes monthly auto allowance of \$800 for the business usage of personal automobiles. Effective March 2, 2009, all monthly auto allowances were eliminated and replaced with mileage reimbursement at the standard mileage rate according to the Internal Revenue Service guidelines for business miles driven as part of a cost-reduction initiative.

(b) This column includes the amounts expensed for financial reporting purposes for Company contributions to the Company's 401(k) retirement savings plan pertaining to matching and profit sharing contributions. Effective March 30, 2009, Company contributions under the Company's 401(k) retirement savings plan have been suspended for an indefinite period of time as part of a cost-reduction initiative. For further information, please refer to the Company's "Employee Benefit Plans" in Note 5 of the Notes to Financial Statements included in this Annual Report for the Year Ended December 31, 2010.

(c) This column includes meals and lodging expenses for Mr. Yurkovic while away from his Maryland residence and working at the Company's headquarters in Easton, Pennsylvania.

(5) Mr. Yurkovic rejoined the Company as Acting CEO on March 1, 2007 at a base salary of \$10,500 per month and is not eligible for director compensation while in this position. Effective March 2, 2009, Mr. Yurkovic's salary was temporarily reduced by approximately 60% to \$4,000 per month as part of a cost-reduction initiative.

(6) Effective March 2, 2009, Mr. Semanick's salary was temporarily reduced by 10% to \$111,936 as part of a cost-reduction initiative.

(7) Mr. Casey rejoined the Company on December 29, 2003 and became Executive Vice President of the Company on October 14, 2005. Mr. Casey was appointed President and COO of SI Systems effective March 1, 2007, at which time his base salary was increased to \$175,000. Effective March 2, 2009, Mr. Casey's salary was temporarily reduced by 10% to \$157,500 as part of a cost-reduction initiative.

B. Legal/Disciplinary History:

- 1. Please identify whether any executive officers or directors of the Company have, in the last five years, been the subject of a conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses):**

The executive officers and directors of the Company have not, in the last five years, been the subject of a conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses).

- 2. Please identify whether any executive officers or directors of the Company have, in the last five years, been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities:**

The executive officers and directors of the Company have not, in the last five years, been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities.

- 3. Please identify whether any executive officers or directors of the Company have, in the last five years, been the subject of a finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated:**

The executive officers and directors of the Company have not, in the last five years, been the subject of a finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated.

- 4. Please identify whether any executive officers or directors of the Company have, in the last five years, been the subject of the entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities:**

The executive officers and directors of the Company have not, in the last five years, been the subject of the entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

C. Disclosure of Family Relationships:

Describe any family relationships among and between the issuer's directors, officers, persons nominated or chosen by the issuer to become directors or officers, or beneficial owners of more than five percent (5%) of any class of the issuer's equity securities:

There are no family relationships between the officers, directors, persons nominated or chosen by the Company to become directors or officers, or beneficial owners of more than five percent (5%) of any class of the Company's equity securities.

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D. Disclosure of Related Party Transactions:

Describe any transaction during the issuer's last two full fiscal years and the current fiscal year or any currently proposed transaction, involving the issuer, in which (i) the amount involved exceeds the lesser of \$120,000 or one percent (1%) of the average of the issuer's total assets at year-end for its last three fiscal years and (ii) any related person had or will have a direct or indirect material interest. Disclose the following information regarding the transaction:

1. The name of the related person and the basis on which the person is related to the issuer;
2. The related person's interest in the transaction;
3. The approximate dollar value involved in the transaction (in the case of indebtedness, disclose the largest aggregate amount of principal outstanding during the time period for which disclosure is required, the amount thereof outstanding as of the latest practicable date, the amount of principal and interest paid during the time period for which disclosure is required, and the rate or amount of interest payable on the indebtedness);
4. The approximate dollar value of the related person's interest in the transaction; and
5. Any other information regarding the transaction or the related person in the context of the transaction that is material to investors in light of the circumstances of the particular transaction.

During the last three years, there have been no related party transactions.

E. Disclosure of Conflicts of Interest:

Describe any conflicts of interest. Describe the circumstances, parties involved and mitigating factors for any executive officer or director with competing professional or personal interests:

There are not any conflicts of interest.

Item XII. Financial information for the issuer's most recent fiscal period:

The financial statements for the fiscal year ended December 31, 2010 are incorporated by reference and can be found at the end of this Annual Report. The financial statements for the fiscal year ended December 31, 2010 include: (1) balance sheets, (2) statements of operations, (3) statements of cash flows, (4) statements of stockholders' equity and comprehensive income (loss), (5) notes to financial statements, and (6) the independent auditors' report.

Item XIII. Similar financial information for such part of the two preceding fiscal years as the issuer or its predecessor has been in existence:

The financial statements for the fiscal year ended December 31, 2009 are incorporated by reference and can be found as a separate report under the name of "Annual Report – Annual Report For The Fiscal Year Ended December 31, 2009, Including The 2009 Year-End Financial Statements" that was posted on the OTC Disclosure & News Service on March 18, 2010. The financial statements for the fiscal year ended December 31, 2009 include: (1) balance sheets, (2) statements of operations, (3) statements of cash flows, (4) statements of stockholders' equity and comprehensive income (loss), (5) notes to financial statements, and (6) the independent auditors' report.

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The financial statements for the fiscal year ended December 31, 2008 are incorporated by reference and can be found in two places: (1) as a separate report under the name of "Annual Report – Annual Report on Form 10-K For The Year Ended December 31, 2008" that was posted on the OTC Disclosure & News Service on November 11, 2009 and (2) as a separate report under SEC Filings Form Type 10-K for the Company's annual report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on March 30, 2009. The financial statements for the fiscal year ended December 31, 2008 include: (1) balance sheets, (2) statements of operations, (3) statements of cash flows, (4) statements of stockholders' equity and comprehensive income (loss), (5) notes to financial statements, and (6) the independent auditors' report.

Item XIV. Beneficial Owners:

Provide a list of the name, address and shareholdings of all persons beneficially owning more than five percent (5%) of any class of the issuer's equity securities:

To the best of the Company's knowledge, the following table is a list of the names, addresses and shareholdings of all persons beneficially owning more than five percent (5%) of any class of the Company's equity securities:

Security Ownership of Certain Beneficial Owners

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Right to Acquire Under Options Exercisable Within 60 Days	Percent of Class (1)
Common Stock, Par Value \$1.00 Per Share	Hesham M. Gad c/o Paragon Technologies, Inc. 600 Kuebler Road Easton, PA 18040	101,688	-	6.5%
Common Stock, Par Value \$1.00 Per Share	Peter H. Kamin c/o Paragon Technologies, Inc. 600 Kuebler Road Easton, PA 18040	181,138	-	11.7%
Common Stock, Par Value \$1.00 Per Share	Robert J. Schwartz c/o Paragon Technologies, Inc. 600 Kuebler Road Easton, PA 18040	85,019	-	5.5%

(1) The percentage for each individual, entity or group is based on the aggregate number of shares outstanding as of March 18, 2011 (1,554,310) and all shares issuable upon the exercise of outstanding stock options held by each individual or group that are presently exercisable or exercisable within 60 days after March 18, 2011.

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Item XV. Provide the name, address, telephone number, and email address of each of the following outside providers that advise the issuer on matters relating to operations, business development and disclosure:

1. Investment Banker:

Curtis Financial Group, LLC
Attention: Thomas Harvey
One Liberty Place
1650 Market Street, Suite 4400
Philadelphia, PA 19103
Telephone number: 215-972-2375
Fax number: 215-972-2388
E-mail address: thomas.harvey@curtisfinancial.com

2. Promoters:

None at this time.

3. General Counsel:

Pepper Hamilton LLP
Attention: Cuyler H. Walker
400 Berwyn Park
899 Cassatt Road
Berwyn, PA 19312-1183
Telephone number: 610-640-7823
Fax number: 610-640-7835
E-mail address: walkerc@pepperlaw.com

4. Accountant or Auditor:

KPMG LLP
Attention: John D. Walker
1601 Market Street
Philadelphia, PA 19103-2499
Telephone number: 267-256-7000
Fax number: 267-256-7200
E-mail address: www.kpmg.com/Global/en/Pages/contactus.aspx

KPMG LLP ("KPMG") served as the Company's independent auditors for 2010, 2009, and 2008. KPMG rendered professional services in connection with the audit of the financial statements included in the Company's Annual Report and tax compliance and tax consultation services related to the Company's annual federal and state tax returns.

The Company's management prepared the financial statements included in the Company's Annual Report.

5. Public Relations Consultant(s):

None at this time.

6. Investor Relations Consultant:

None at this time.

7. Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement – the information shall include the telephone number and email address of each advisor:

None at this time.

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Item XVI. Management’s Discussion and Analysis or Plan of Operation:

Issuers that have not had revenues in each of the last two fiscal years, or the last fiscal year and any interim period in the current fiscal year for which financial statements are furnished in the disclosure statement, shall provide the information in paragraphs A (Plan of Operation) and C (Off-Balance Sheet Arrangements) of this Item. All other issuers shall provide the information in paragraphs B (Management’s Discussion and Analysis of Financial Condition and Results of Operations) and C (Off-Balance Sheet Arrangements) of this Item.

A. Plan of Operation:

Not applicable.

B. Management’s Discussion and Analysis of Financial Condition and Results of Operations:

Results of Operations – Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009

Earnings Summary

The Company had a net loss of \$1,054,000 (or \$0.68 basic loss per share) for the year ended December 31, 2010, compared to a net loss of \$531,000 (or \$0.33 basic loss per share) for the year ended December 31, 2009. The increase in the net loss was primarily due to:

- a decrease during 2010 in sales and gross profit of \$1,207,000 and \$643,000, respectively, as described below;
- a decrease of \$73,000 in interest income attributable to the lower level of funds available for investment and the reduced level of interest rates earned on funds available for investment;
- an increase in product development costs of \$64,000 as described below; and
- a decrease in income tax benefit of \$340,000 as described below.

Partially offsetting the above increase in the net loss was a decrease in selling, general and administrative expenses of \$603,000 as described below.

Net Sales and Gross Profit on Sales

	2010	2009
Net sales.....	\$ 8,036,000	9,243,000
Cost of sales.....	6,189,000	6,753,000
Gross profit on sales.....	<u>\$ 1,847,000</u>	<u>2,490,000</u>
Gross profit as a percentage of sales.....	<u>23.0%</u>	<u>26.9%</u>

The decrease in sales was associated with a smaller backlog of orders entering 2010 when compared to the backlog of orders entering 2009 and a smaller amount of orders received during 2010 when compared to the amount of orders received during 2009.

Gross profit, as a percentage of sales, for the year ended December 31, 2010, when compared to the year ended December 31, 2009, was unfavorably impacted by 4.3% due to product mix, and favorably impacted by 0.4% due to the increased absorption of overhead costs.

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Results of Operations – Year Ended December 31, 2010 Compared to the Year Ended December 31, 2009 *(Continued)*

Selling, General and Administrative Expenses

Selling, general and administrative expenses of \$2,888,000 were lower by \$603,000 for the year ended December 31, 2010 than for the year ended December 31, 2009. The favorable variance in selling, general and administrative expenses was primarily attributable to a decrease of \$368,000 in salaries and fringe benefits, and a decrease of \$24,000 in professional fees. Also contributing to the reduction in selling, general and administrative expenses was \$125,000 of severance costs that was recognized primarily during the first quarter of 2009 pertaining to a reduction of employees due to the economic slowdown.

Product Development Costs

Product development costs, including patent expense, of \$201,000 were higher by \$64,000 for the year ended December 31, 2010 than for the year ended December 31, 2009. Development programs in the years ended December 31, 2010 and 2009 were primarily aimed at improvements to the Company's Order Fulfillment systems technologies. Order Fulfillment development efforts during the year ended December 31, 2010 included voice picking, the MightyMAC™ (Mobile A-Frame Cart), and DISPENSIMATIC® hardware and software enhancements aimed at promoting workplace efficiencies for the Company's customers. The MightyMAC™ was introduced to the market in the fourth quarter of 2010. MightyMAC™, a smaller version of the DISPENSIMATIC™ with fewer channels, is portable, scalable, and also automatically dispenses product directly into totes being transported on an adjacent conveyor. Order Fulfillment development efforts during the year ended December 31, 2009 included DISPENSIMATIC® hardware and software enhancements aimed at promoting workplace efficiencies for the Company's customers.

Interest Income

Interest income of \$58,000 was lower by \$73,000 for the year ended December 31, 2010 than for the year ended December 31, 2009. The decrease in interest income was attributable to the lower level of funds available for investment and the reduced level of interest rates earned on funds available for investment.

Income Tax Expense (Benefit)

The Company recognized an income tax benefit of \$151,000 during the year ended December 31, 2010 compared to the recognition of an income tax benefit of \$491,000 during the year ended December 31, 2009. The income tax benefit for the year ended December 31, 2010 primarily resulted from the reversal of accruals for the expiration of tax return statutes. The income tax benefit for the year ended December 31, 2009 primarily resulted from the carry back of federal net operating losses pursuant to the extended carry back period under *The Worker, Homeownership, and Business Assistance Act of 2009* and the reversal of accruals for the expiration of tax return statutes.

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Results of Operations – Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008

Earnings Summary

The Company had a net loss of \$531,000 (or \$0.33 basic loss per share) for the year ended December 31, 2009, compared to a net loss of \$687,000 (or \$0.28 basic loss per share) for the year ended December 31, 2008. The decrease in the net loss was primarily due to:

- a decrease in selling, general and administrative expenses of \$1,875,000 as described below; and
- an increase in income tax benefit of \$944,000 as described below.

Partially offsetting the above decrease in the net loss was:

- a decrease during 2009 in sales and gross profit of \$7,457,000 and \$2,417,000, respectively, as described below;
- a decrease of \$210,000 in interest income attributable to the lower level of funds available for investment as the Company liquidated a portion of its short-term investments to fund the Company's stock repurchase activities and the reduced level of interest rates earned on funds available for investment; and
- an increase in product development costs of \$23,000 as described below.

Net Sales and Gross Profit on Sales

	2009	2008
Net sales.....	\$ 9,243,000	16,700,000
Cost of sales.....	6,753,000	11,793,000
Gross profit on sales.....	<u>\$ 2,490,000</u>	<u>4,907,000</u>
Gross profit as a percentage of sales.....	<u>26.9%</u>	<u>29.4%</u>

The decrease in sales was associated with a smaller backlog of orders entering 2009 when compared to the backlog of orders entering 2008 and a smaller amount of orders received during 2009 when compared to the amount of orders received during 2008 due to the economic slowdown.

Gross profit, as a percentage of sales, for the year ended December 31, 2009, when compared to the year ended December 31, 2008, was favorably impacted by 0.2% due to product mix, and unfavorably impacted by 2.7% due to the reduced absorption of overhead costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of \$3,491,000 were lower by \$1,875,000 for the year ended December 31, 2009 than for the year ended December 31, 2008. The favorable variance in selling, general and administrative expenses was primarily attributable to a decrease of \$971,000 in salaries and fringe benefits, a decrease of \$161,000 in commission expenses related to the reduction in sales, a decrease of \$402,000 in marketing expenses primarily associated with product promotion and trade shows, and a decrease of \$157,000 in professional fees and consulting expenses. Also contributing to the reduction in selling, general and administrative expenses was \$105,000 of provision related to the allowance for doubtful accounts associated with uncollectible receivables that was recognized during the third quarter of 2008.

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Results of Operations – Year Ended December 31, 2009 Compared to the Year Ended December 31, 2008 *(Continued)*

Product Development Costs

Product development costs, including patent expense, of \$137,000 were higher by \$23,000 for the year ended December 31, 2009 than for the year ended December 31, 2008. Development programs in the years ended December 31, 2009 and 2008 were primarily aimed at improvements to the Company's Order Fulfillment systems technologies. Order Fulfillment development efforts during the year ended December 31, 2009 included DISPENSIMATIC® hardware and software enhancements aimed at promoting workplace efficiencies for the Company's customers. Order Fulfillment development efforts during the year ended December 31, 2008 included voice-directed replenishment and DISPENSIMATIC® software enhancements aimed at promoting workplace efficiencies for the Company's customers.

Interest Income

Interest income of \$131,000 was lower by \$210,000 for the year ended December 31, 2009 than for the year ended December 31, 2008. The decrease in interest income was attributable to the lower level of funds available for investment as the Company liquidated a portion of its short-term investments to fund the Company's stock repurchase activities and the reduced level of interest rates earned on funds available for investment.

Income Tax Expense (Benefit)

The Company recognized an income tax benefit of \$491,000 during the year ended December 31, 2009 compared to income tax expense of \$453,000 during the year ended December 31, 2008. The income tax benefit for the year ended December 31, 2009 primarily resulted from the carry back of federal net operating losses pursuant to the extended carry back period under *The Worker, Homeownership, and Business Assistance Act of 2009* and the reversal of accruals for the expiration of tax return statutes. Income tax expense for the year ended December 31, 2008 was higher than statutory federal and state tax rates primarily due to the establishment of a full valuation allowance offsetting net deferred tax assets.

Liquidity and Capital Resources

The Company's cash and cash equivalents at December 31, 2010 were \$4,892,000, representing 64.5% of total assets, compared to \$6,198,000, or 73.7% of total assets, at December 31, 2009. The decrease was primarily due to cash used by operating activities totaling \$1,261,000, the repurchase and retirement of common stock totaling \$22,000, and purchases of capital equipment totaling \$23,000.

Cash used by operating activities totaling \$1,261,000 during the year ended December 31, 2010 was primarily due to the following factors:

- a net loss in the amount of \$1,054,000 for the year ended December 31, 2010;
- an increase in receivables in the amount of \$492,000 in accordance with contractual requirements;
- an increase in costs and estimated earnings in excess of billings in the amount of \$118,000 in accordance with contractual requirements; and
- a decrease in accrued product warranties in the amount of \$59,000 primarily associated with the reversal of unused, expired accrued product warranties for contracts that were no longer in the warranty period.

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Liquidity and Capital Resources *(Continued)*

Partially offset by the following factors:

- an increase in customers' deposits and billings in excess of costs and estimated earnings in the amount of \$566,000 in accordance with contractual requirements; and
- a decrease in inventories in the amount of \$72,000 utilized in accordance with job completion requirements.

The Company's cash and cash equivalents at December 31, 2009 were \$6,198,000, representing 73.7% of total assets, compared to \$5,615,000, or 52.9% of total assets, at December 31, 2008. The increase was primarily due to cash provided by operating activities totaling \$1,120,000, partially offset by the repurchase and retirement of common stock totaling \$534,000, and purchases of capital equipment totaling \$3,000.

Cash provided by operating activities totaling \$1,120,000 during the year ended December 31, 2009 was primarily due to the following factors:

- a decrease in receivables in the amount of \$1,630,000 in accordance with contractual requirements;
- a decrease in costs and estimated earnings in excess of billings in the amount of \$914,000 in accordance with contractual requirements; and
- a decrease in inventories in the amount of \$141,000 utilized in accordance with job completion requirements.

Partially offset by the following factors:

- a net loss in the amount of \$531,000 for the year ended December 31, 2009;
- a decrease in accounts payable in the amount of \$530,000 associated with payments for purchases of goods and services rendered in accordance with job completion requirements;
- a decrease in customers' deposits and billings in excess of costs and estimated earnings in the amount of \$174,000 in accordance with contractual requirements; and
- a decrease in accrued product warranties in the amount of \$265,000 primarily associated with the reversal of unused, expired accrued product warranties for contracts that were no longer in the warranty period.

The Company repurchased \$22,000, \$534,000, and \$4,567,000 of its common stock in 2010, 2009, and 2008, respectively. On December 12, 2008, the Company's Board of Directors amended its existing stock repurchase program by increasing the amount it has authorized management to repurchase from up to \$20,000,000 of the Company's common stock to up to \$22,000,000. As of December 31, 2010, the Company has approximately \$2,760,806 authorized by the Board of Directors to use for future stock repurchases.

On February 19, 2009, the Company established a \$5,000,000 line of credit facility with its principal bank to be used primarily for working capital purposes. On December 1, 2010, the amount on the line of credit facility was reduced to \$3,500,000. Interest on the line of credit facility is at the LIBOR Market Index Rate plus 1.25%. As of December 31, 2010, the Company did not have any borrowings under the line of credit facility; however, the leasing agreement associated with the Company's principal office is secured with a \$200,000 letter of credit. Therefore, as of December 31, 2010, the amount available under the line of credit was \$3,300,000. There were no borrowings outstanding during 2010.

The line of credit facility contains various non-financial covenants and is secured by all of the Company's accounts receivable and inventory. The Company was in compliance with all covenants as of December 31, 2010. The line of credit facility expires on November 30, 2011.

The Company does not have any material commitments for capital expenditures as of December 31, 2010.

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Liquidity and Capital Resources (Continued)

The Company anticipates that its financial resources, consisting of cash and cash equivalents, 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. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites. The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in the Company's sales and earnings occur with increases or decreases in major installations.

The Company continues to review opportunities with the goal of maximizing resources, increasing stockholder value, and pursuing strategic alternatives. Although the Company enters into preliminary discussions and non-disclosure agreements from time to time, the Company does not have any material definitive agreements in place. There is no assurance that the Company will be able to consummate any strategic alternatives.

Contractual Obligations

The Company leases 25,000 square feet in Easton, Pennsylvania for use as its principal office. The leasing agreement, as amended, requires fixed monthly rental payments of \$18,000. The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The leasing agreement is secured with a \$200,000 letter of credit. The lease expires on February 20, 2013.

Future contractual obligations and commercial commitments at December 31, 2010 as noted above are as follows:

	Payments Due by Period						
	Total	2011	2012	2013	2014	2015	After 2015
Contractual obligations:							
Operating leases	\$ 468,000	216,000	216,000	36,000	-	-	-

	Total Amounts Committed	Amount of Commitment Expiration Per Period					
		2011	2012	2013	2014	2015	After 2015
Other commercial commitments:							
Letters of credit.....	\$ 200,000	200,000	-	-	-	-	-

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Severance

The Company has an Executive Officer Severance Policy (the "Severance Policy") for executive officers without an employment agreement, which applies in the event that an executive officer is terminated by the Company for reasons other than "cause," as such term is defined in the Severance Policy. The Severance Policy was established to provide a competitive benefit in order to motivate qualified individuals to accept executive officer positions with the Company. Under the Severance Policy, the CEO will receive 52 week's regular straight-time pay while the other executive officers will receive one week's regular straight-time pay based on their years of service with the Company in accordance with the following schedule:

<u>Years of Service</u>	<u>Severance Pay (Weeks)</u>
1 year of service or less	13 Weeks
Greater than 1 year of service, but less than 7 years of service	26 Weeks
Greater than 7 years of service, but less than 14 years of service	39 Weeks
Greater than 14 years of service or CEO of the Company	52 Weeks

During the aforementioned severance payout period, the Company will provide the executive officer continued medical coverage up to a maximum of 18 months in accordance with the same terms offered during employment. The Company will also provide executive outplacement services for terminated executive officers.

Quantitative and Qualitative Disclosures about Market Risk

The Company does not believe that its exposures to interest rate risk or foreign currency exchange risk, risk from commodity prices, equity prices and other market changes that affect market risk sensitive instruments are material to its results of operations.

Risk Factors

THE FOLLOWING CAUTIONARY STATEMENTS ARE MADE TO PERMIT PARAGON TECHNOLOGIES, INC. TO TAKE ADVANTAGE OF THE "SAFE HARBOR" PROVISIONS OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995.

Investing in the Company's Common Stock will provide an investor with an equity ownership interest in the Company. Stockholders will be subject to risks inherent in the Company's business. The performance of Paragon's shares will reflect the performance of the Company's business relative to, among other things, general economic and industry conditions, market conditions, and competition. The value of the investment in the Company may increase or decline and could result in a loss. An investor should carefully consider the following factors as well as other information contained in this Annual Report before deciding to invest in shares of the Company's Common Stock.

This Annual Report also contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risk factors described below and the other factors described elsewhere in this Annual Report.

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The Company wishes to inform its investors of the following important factors that in some cases have affected, and in the future could affect, the Company's results of operations and that could cause such future results of operations to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. Disclosure of these factors is intended to permit the Company to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Many of these factors have been discussed in prior Pink Sheets and SEC filings by the Company. Though the Company has attempted to list comprehensively these important cautionary factors, the Company wishes to caution investors that other factors may in the future prove to be important in affecting the Company's results of operations.

Sales of the Company's products depend on the capital spending decisions of its customers.

Automated, integrated material handling systems using the Company's products can range in price from \$100,000 to several million dollars. Accordingly, purchases of the Company's products represent a substantial capital investment by its customers, and the Company's success depends directly on their capital expenditure budgets. The Company's future operations may be subject to substantial fluctuations as a consequence of domestic and foreign economic conditions, industry patterns, and other factors affecting capital spending.

The current domestic and international economic conditions in the Company's major markets for SI Systems' branded products, such as the electronics, telecommunications, semiconductor, appliance, pharmaceutical, food processing, and automotive components industries, have resulted in cutbacks in capital spending which has caused a direct, material adverse impact on the Company's product sales in recent years. The Company's business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in the Company's sales and earnings occur with increases or decreases in major installations. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites.

The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company cannot estimate when or if a sustained revival in the markets for its products will occur. If the Company is unable to maintain an increased level of sales of its products, the Company's sales will continue to be adversely affected.

The Company is largely dependent upon a limited number of large contracts, including contracts with federal government agencies.

The Company is largely dependent upon a limited number of large contracts from large domestic corporations and federal government agencies. This dependence can cause unexpected fluctuations in sales volume and operating results from period to period. In the year ended December 31, 2010, three customers individually accounted for sales of 27.4%, 22.1%, and 10.4%. In the year ended December 31, 2009, one customer accounted for sales of 28.7%. In the year ended December 31, 2008, two customers individually accounted for sales of 19.9% and 18.6%. No other customers accounted for over 10% of sales.

The Company received 3.1% of its sales from sales to government agencies in the fiscal year ended December 31, 2010. Our sales have been impacted as a result of government spending cuts, general budgetary constraints, and the complex and competitive government procurement processes. If the Company is unable to attain an increased level of government-related sales, the Company's sales will continue to be adversely affected.

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The Company's contracts with government agencies are subject to adjustment pursuant to federal regulations.

From time to time, the Company receives contracts from federal government agencies. Each of the Company's contracts with federal agencies include various federal government regulations that impose certain requirements on the Company, including the ability of the government agency or general contractor to alter the price, quantity, or delivery schedule of the Company's products. In addition, the government agency retains the right to terminate the contract at any time at its convenience. Upon alteration or termination of these contracts, the Company would normally be entitled to an equitable adjustment to the contract price so that the Company may receive the purchase price for items it has delivered and reimbursement for allowable costs it has incurred. From time to time, a portion of the Company's backlog is from government-related contracts. Accordingly, because contracts with federal agencies can be terminated, the Company cannot assure you that backlog associated with government contracts will result in sales. The Company has not previously experienced material adjustments or terminations of government contracts.

The Company must accurately estimate its costs prior to entering into contracts on a fixed-price basis.

The Company frequently enters into contracts with its customers on a fixed-price basis. In order to realize a profit on these contracts, the Company must accurately estimate the costs the Company will incur in completing the contract. 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. 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.

At times, uncertainty exists with respect to the resources required to accomplish the contractual scope of work dealing with the final integration of state-of-the-art automated material handling systems. As a result of past experience with cost overruns, the Company established enhanced business controls, estimating, and procurement disciplines to attempt to reduce future cost overruns. Since the Company established these controls in 2000, it has not experienced additional significant cost overruns on new contracts; however, additional cost overruns in the future could result in reduced revenues and earnings.

The Company faces significant competition, which could result in the Company's loss of customers.

The markets in which the Company competes are highly competitive. The Company competes with a number of different manufacturers, both domestically and abroad, with respect to each of its products and services. Some of the Company's competitors have greater financial and other resources than the Company. The Company's ability to compete depends on factors both within and outside its control, including:

- product availability, performance, and price;
- product brand recognition;
- distribution and customer support;
- the timing and success of its newly developed products; and
- the timing and success of newly developed products by its competitors.

These factors could possibly limit the Company's ability to compete successfully.

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The Company may lose market share if it is not able to develop new products or enhance its existing products.

The Company's ability to remain competitive and its future success depend greatly upon the technological quality of its products and processes relative to those of its competitors. The Company may need to develop new and enhanced products and to introduce these new products at competitive prices and on a timely and cost-effective basis. The Company may not be successful in selecting, developing, and manufacturing new products or in enhancing its existing products on a timely basis or at all. The Company's new or enhanced products may not achieve market acceptance. If the Company cannot successfully develop and manufacture new products, timely enhance its existing technologies, or meet customers' technical specifications for any new products, the Company's products could lose market share, its sales and profits could decline, and it could experience operating losses. New technology or product introductions by the Company's competitors could also cause a decline in sales or loss of market share for the Company's existing products or force the Company to significantly reduce the prices of its existing products.

From time to time, the Company has experienced and will likely continue to experience delays in the introduction of new products. The Company has also experienced and may continue to experience technical and manufacturing difficulties with introductions of new products and enhancements. Any failure by the Company to develop, manufacture, and sell new products in quantities sufficient to offset a decline in sales from existing products or to manage product and related inventory transitions successfully could harm the Company's business. The Company's success in developing, introducing, selling, and supporting new and enhanced products depends upon a variety of factors, including:

- timely and efficient completion of hardware and software design and development;
- timely and efficient implementation of manufacturing processes; and
- effective sales, marketing, and customer service.

The Company depends on key personnel and may not be able to retain these employees or recruit additional qualified personnel, which would harm the Company's business.

The Company is highly dependent upon the continuing contributions of its key management, sales, and product development personnel. The loss of the services of any of its senior managerial, technical, or sales personnel could have a material adverse effect on the Company's business, financial condition, and results of operations. None of the Company's executive officers have employment agreements with the Company. The Company does not maintain key man life insurance on the lives of any of its key personnel. The Company's future success also heavily depends on its continuing ability to attract, retain, and motivate highly qualified managerial, technical, and sales personnel. The Company's inability to recruit and train adequate numbers of qualified personnel on a timely basis could adversely affect its ability to design, manufacture, market, and support its products.

The Company may face costly intellectual property infringement claims.

On a few occasions, the Company has received communications from third parties asserting that it is infringing certain patents and other intellectual property rights of others, or seeking indemnification against the alleged infringement. As claims arise, the Company evaluates their merits. Any claims of infringement brought by third parties could result in protracted and costly litigation, in the Company paying damages for infringement, and in the need for the Company to obtain a license relating to one or more of its products or current or future technologies. Such a license may not be available on commercially reasonable terms or at all. Litigation, which could result in substantial cost to the Company and diversion of its resources, may be necessary to enforce its patents or other intellectual property rights, or to defend the Company against claimed infringement of the rights of others. Any intellectual property litigation and the failure to obtain necessary licenses or other rights could have a material adverse effect on the Company's business, financial condition, and results of operations.

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The Company's failure to protect its intellectual property and proprietary technology may significantly impair the Company's competitive advantage.

Third parties may infringe or misappropriate the Company's patents, copyrights, trademarks, and similar proprietary rights. The Company cannot be certain that the steps the Company has taken to prevent the misappropriation of the Company's intellectual property are adequate, particularly in foreign countries where the laws may not protect the Company's proprietary rights as fully as in the United States. The Company relies on a combination of patent, copyright, and trade secret protection and nondisclosure agreements to protect its proprietary rights. However, the Company cannot be certain that patent and copyright law and trade secret protection will be adequate to deter misappropriation of its technology, that any patents issued to the Company will not be challenged, invalidated, or circumvented, that the rights granted thereunder will provide competitive advantages to the Company, or that the claims under any patent application will be allowed. The Company may be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. The process of seeking patent protection can be time-consuming and expensive, and there can be no assurance that patents will issue from currently pending or future applications or that the Company's existing patents or any new patents that may be issued will be sufficient in scope or strength to provide meaningful protection or any commercial advantage to the Company.

The Company may in the future initiate claims or litigation against third parties for infringement of the Company's proprietary rights in order to determine the scope and validity of the Company's proprietary rights or the proprietary rights of the Company's competitors. These claims could result in costly litigation and the diversion of the Company's technical and management personnel.

New software products or enhancements may contain defects that could result in expensive and time-consuming design modifications or large warranty charges, damage customer relationships, and result in loss of market share.

New software products or enhancements may contain errors or performance problems when first introduced, when new versions or enhancements are released, or even after such products or enhancements have been used in the marketplace for a period of time. Despite the Company's testing, product defects may be discovered only after a product has been installed and used by customers. Errors and performance problems may be discovered in future shipments of the Company's products. These errors could result in expensive and time-consuming design modifications or large warranty charges, damage customer relationships, and result in loss of market share. To date, there have been no known defects in the Company's software products that materially affected the Company's operations.

The Company may be subject to product liability claims, which can be expensive, difficult to defend, and may result in large judgments or settlements against the Company.

On a few occasions, the Company has received communications from third parties asserting that the Company's products have caused bodily injury to others. Product liability claims can be expensive, difficult to defend, and may result in large judgments or settlements against the Company. In addition, third party collaborators and licensees may not protect the Company from product liability claims. Although the Company maintains product liability insurance, claims could exceed the coverage obtained. A successful product liability claim in excess of the Company's insurance coverage could harm the Company's financial condition and results of operations. In addition, any successful claim may prevent the Company from obtaining adequate product liability insurance in the future on commercially desirable terms. Even if a claim is not successful, defending such a claim may be time-consuming and expensive.

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The Company may seek to make acquisitions or joint ventures that prove unsuccessful or strain or divert resources.

The Company continues to evaluate potential acquisitions and joint ventures. However, the Company may not be able to complete any acquisitions or joint ventures at all. Acquisitions and joint ventures present risks that could materially and adversely affect the Company's business and financial performance, including:

- the diversion of management's attention from everyday business activities;
- the contingent and latent risks associated with the past operations of, and other unanticipated problems arising in, the acquired business; and
- the need to expand management, administration, and operational systems.

If the Company makes such acquisitions, it cannot predict whether:

- it will be able to successfully integrate the operations and personnel of any new businesses into its business;
- it will realize any anticipated benefits of completed acquisitions; or
- there will be substantial unanticipated costs associated with acquisitions, including potential costs associated with environmental liabilities undiscovered at the time of acquisition.

If the Company makes such joint ventures, it cannot predict whether:

- it will realize any anticipated benefits of successful joint ventures; and
- there will be substantial unanticipated costs associated with such joint ventures or investments.

In addition, future acquisitions by the Company may result in:

- potentially dilutive issuances of the Company's equity securities;
- the incurrence of additional debt;
- restructuring charges; and
- the recognition of significant charges for depreciation and amortization related to certain intangible assets.

In the future, the Company may make investments in or acquire companies or commence operations in businesses and industries that are outside of those areas that the Company has operated historically. The Company cannot assure that it will be successful in managing any new business. If these investments, acquisitions, or arrangements are not successful, the Company's earnings could be materially adversely affected by increased expenses and decreased revenues.

The Company's presence in international markets exposes it to risk.

The Company has a limited presence in international markets and has experienced a fluctuation in international sales volume in recent years. Maintenance and continued growth of this segment of the Company's business may be affected by changes in trade, monetary and fiscal policies, laws and regulations of the United States and other trading nations, and by foreign currency exchange rate fluctuations.

Availability of product components could harm the Company's profitability.

The Company obtains raw materials and certain manufactured components from third party suppliers. Although the Company deems that it maintains an adequate level of raw material inventory, even brief unanticipated delays in delivery by suppliers, including those due to capacity constraints, labor disputes, impaired financial condition of suppliers, weather emergencies, or other natural disasters, may adversely affect the Company's ability to satisfy its customers on a timely basis and thereby affect the Company's financial performance.

PARAGON TECHNOLOGIES, INC.
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The Company may be impacted by the overall state of the economy.

The Company remains subject to the risks associated with prolonged declines in national or local economies. Conditions such as inflation, recession, unemployment, changes in interest rates and other factors beyond the Company's control may adversely affect the Company's asset quality and, therefore, its earnings. In particular, changes in interest rates could adversely affect the Company's net interest income and have a number of other adverse effects on the Company's operations. Adverse changes in the economy may have a negative effect on the Company's operations, which could have an adverse impact on the Company's earnings. Consequently, any prolonged decline in the economy in the Company's market area could have a material adverse effect on the Company's financial condition and results of operations. Although the Company could attempt to mitigate or cover its exposure from such risks, there can be no assurance that the Company will be able to mitigate or cover all of the costs resulting from such risks.

Because the Company's common stock is quoted on the Pink Sheets instead of an exchange or national quotation system, our investors are subject to the constraints of a less active market and may experience negative volatility on the market price of the Company's common stock.

The Company's common stock is traded on the Pink Sheets under the symbol "PGNT." The OTCBB is often highly illiquid. There is a greater chance of volatility for securities that trade on the OTCBB as compared to a national exchange or quotation system. This volatility may be caused by a variety of factors, including the lack of readily available price quotations, the absence of consistent administrative supervision of bid and ask quotations, lower trading volume, and market conditions. Investors in the Company's common stock may experience high fluctuations in the market price and volume of the trading market for our securities. These fluctuations, when they occur, may have a negative effect on the market price for our securities. Accordingly, our stockholders may not be able to realize a fair price from their shares when they determine to sell them or may have to hold them for a substantial period of time until the market for our common stock improves.

The concentration of ownership of the Company's common stock could limit the ability of stockholders to influence the outcome of director elections and other transactions submitted for a vote of the Company's stockholders.

The Company's officers and directors and their affiliates together control approximately 28% of the Company's outstanding voting power. Consequently, these stockholders, if they act together, may be able to exert influence over matters requiring stockholder approval, including the election of directors and other significant corporate transactions.

We do not currently plan to pay dividends to holders of our common stock.

We do not currently anticipate paying cash dividends to the holders of our common stock. Any decision to pay dividends on our common stock in the future will be made by the Board of Directors.

C. Off-Balance Sheet Arrangements:

As of December 31, 2010, 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), obligations (including contingent obligations) under a contract that would be accounted for as a derivative instrument, 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.

PARAGON TECHNOLOGIES, INC.
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Part E — Issuance History

Item XVII. Provide a list of securities offerings and shares issued for services in the past two years:

There were no securities offerings or shares issued for services in the past two years.

Part F — Exhibits

Item XVIII. Material Contracts:

No material contracts were entered into outside the ordinary course of business within the last two years.

The Company disclosed supplemental information regarding its line of credit facility on the OTC Disclosure & News Service on December 7, 2010 and this supplemental information is incorporated by reference and can be found as a separate report under Supplemental Information as follows:

- Change in Terms Agreement (Line of Credit) Dated December 1, 2010 Entered Into by and Between Paragon Technologies, Inc. and KNBT, a Division of National Penn Bank.

Also, the Company disclosed supplemental information regarding its line of credit facility, Code of Business Conduct and Ethics, the 1997 Equity Compensation Plan, and its leasing agreement for its principal office in Easton, Pennsylvania on the OTC Disclosure & News Service on February 4, 2010 and this supplemental information is incorporated by reference and can be found as separate reports under Supplemental Information as follows:

- Business Loan Agreement (Line of Credit) Entered Into February 19, 2009 by and between Paragon Technologies, Inc. and KNBT, a Division of National Penn Bank.
- Change in Terms Agreement (Line of Credit) Dated December 3, 2009 Entered Into by and Between Paragon Technologies, Inc. and KNBT, a Division of National Penn Bank.
- Promissory Note Related to the Line of Credit Business Loan Agreement Entered Into February 19, 2009 by and between Paragon Technologies, Inc. and KNBT, a Division of National Penn Bank.
- Commercial Security Agreement Related to the Line of Credit Entered into February 19, 2009 by and between Paragon Technologies, Inc. and KNBT, a Division of National Penn Bank.
- Code of Business Conduct and Ethics.
- 1997 Equity Compensation Plan.
- Lease Agreement Between Triple Net Investments XIII, L.P. and Paragon Technologies, Inc. dated February 21, 2003.
- Amendment to Lease Agreement Between Triple Net Investments XIII, L.P. and Paragon Technologies, Inc. dated November 14, 2007.

PARAGON TECHNOLOGIES, INC.
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- 1. List any contract to which directors, officers, promoters, voting trustees, security holders named in the disclosure statement, or the Designated Advisor for Disclosure are parties other than contracts involving only the purchase or sale of current assets having a determinable market price, at such market price:**

Not applicable.

- 2. List any contract upon which the issuer's business is substantially dependent, including but not limited to contracts with principal customers, principal suppliers, and franchise agreements:**

Not applicable.

The Company's business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites. The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in the Company's sales and earnings occur with increases or decreases in major installations.

- 3. List any contract for the purchase or sale of any property, plant or equipment for consideration exceeding 15% of such assets of the issuer:**

Not applicable.

- 4. List any material lease under which a part of the property described in the disclosure statement is held by the issuer:**

Not applicable.

Item XIX. Articles of Incorporation and Bylaws:

The Articles of Incorporation of the Company are incorporated by reference and can be found as a separate report under the name of "Articles of Incorporation" that was posted on the OTC Disclosure & News Service on November 16, 2009.

The Bylaws of the Company are incorporated by reference and can be found as a separate report under the name of "Corporate Bylaws" that was posted on the OTC Disclosure & News Service on November 16, 2009.

PARAGON TECHNOLOGIES, INC.
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Item XX. Purchase of Equity Securities by the Issuer and Affiliated Purchasers:

Stock Repurchase Program

The following table represents the periodic repurchases of equity securities made by the Company during the three months ended December 31, 2010:

Issuer Purchases of Equity Securities					
Fiscal Period	Total Number of Shares Repurchased	Average Price Paid Per Share (Including Brokerage Commissions)	Total Number of Shares Repurchased as Part of a Publicly Announced Program	Approximate Dollar Value of Shares Purchased Under the Program	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program
10/01/10 – 10/31/10	-	\$ -	-	\$ -	\$ 2,760,806
11/01/10 – 11/30/10	-	\$ -	-	\$ -	\$ 2,760,806
12/01/10 – 12/31/10	-	\$ -	-	\$ -	\$ 2,760,806
	-	\$ -	-	\$ -	

On August 12, 2004, the Company's Board of Directors approved a program to repurchase up to \$1,000,000 of its outstanding common stock. The Company's Board of Directors amended its existing stock repurchase program on several occasions during 2005, 2006, 2007, and 2008 by increasing the amount it has authorized management to repurchase from up to \$1,000,000 of the Company's common stock to up to \$22,000,000.

There were no stock repurchases during the three months ended December 31, 2010. During the year ended December 31, 2010, the Company repurchased 10,000 shares of common stock at a weighted average cost, including brokerage commissions, of \$2.23 per share. Cash expenditures for the stock repurchases for the three and twelve months ended December 31, 2010 were \$0 and \$22,256, respectively.

From the inception of the Company's stock repurchase program on August 12, 2004 through December 31, 2010, the Company repurchased 2,850,100 shares of common stock at a weighted average cost, including brokerage commissions, of \$6.75 per share. Cash expenditures for the stock repurchases since the inception of the program were \$19,239,194. As of December 31, 2010, \$2,760,806 remained available for repurchases under the stock repurchase program.

Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions at the discretion of the Company. There is no expiration date with regards to the stock repurchase program. The purchase price for the shares of the Company's common stock repurchased was reflected as a reduction to stockholders' equity. The Company allocates the purchase price of the repurchased and retired shares as a reduction to common stock for the par value of the shares repurchased, with the excess of the purchase price over par value being allocated to additional paid-in capital and retained earnings. All shares of common stock that were repurchased by the Company since the inception of the program were subsequently retired.

PARAGON TECHNOLOGIES, INC.
Annual Report
For The Fiscal Year Ended December 31, 2010

Item XXI. Issuer's Certifications:

I, Leonard S. Yurkovic, Acting Chief Executive Officer of the issuer, certify that:

- a. I have reviewed this Annual Report of Paragon Technologies, Inc.
- b. Based on my knowledge, this disclosure statement 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 disclosure statement; and
- c. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 18, 2011

/s/ Leonard S. Yurkovic
Leonard S. Yurkovic
Acting Chief Executive Officer
Paragon Technologies, Inc.

I, Ronald J. Semanick, Chief Financial Officer of the issuer, certify that:

- a. I have reviewed this Annual Report of Paragon Technologies, Inc.
- b. Based on my knowledge, this disclosure statement 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 disclosure statement; and
- c. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

March 18, 2011

/s/ Ronald J. Semanick
Ronald J. Semanick
Chief Financial Officer
Paragon Technologies, Inc.

PARAGON TECHNOLOGIES, INC.

ANNUAL REPORT

2010 YEAR-END FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

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Independent Auditors' Report

The Board of Directors
Paragon Technologies, Inc.:

We have audited the accompanying balance sheets of Paragon Technologies, Inc. as of December 31, 2010 and 2009, and the related statements of operations, stockholders' equity and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2010. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paragon Technologies, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Philadelphia, Pennsylvania
March 18, 2011

PARAGON TECHNOLOGIES, INC.
 Balance Sheets
 December 31, 2010 and 2009
(In Thousands, Except Share Data)

	December 31, 2010	December 31, 2009
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 4,892	6,198
Receivables:		
Trade	1,744	876
Other receivables	81	457
Total receivables	<u>1,825</u>	<u>1,333</u>
Costs and estimated earnings in excess of billings	129	11
Inventories:		
Raw materials	165	151
Work-in-process	99	5
Finished goods	228	408
Total inventories	<u>492</u>	<u>564</u>
Prepaid expenses and other current assets ..	105	110
Total current assets	<u>7,443</u>	<u>8,216</u>
Machinery and equipment, at cost:		
Machinery and equipment	1,263	1,338
Less: accumulated depreciation	1,119	1,141
Net machinery and equipment	<u>144</u>	<u>197</u>
Total assets	<u>\$ 7,587</u>	<u>8,413</u>

See accompanying notes to financial statements.

(Continued)

PARAGON TECHNOLOGIES, INC.Balance Sheets *(Continued)*

December 31, 2010 and 2009

(In Thousands, Except Share Data)

	December 31, 2010	December 31, 2009
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable.....	\$ 714	732
Customers' deposits and billings in excess of costs and estimated earnings.....	1,196	630
Accrued salaries, wages, and commissions	136	154
Accrued product warranties	71	130
Unearned support contract revenue	327	344
Accrued other liabilities	260	279
Total current liabilities.....	<u>2,704</u>	<u>2,269</u>
Long-term liabilities:		
Income taxes payable	-	185
Total long-term liabilities.....	<u>-</u>	<u>185</u>
Commitments and contingencies (See Notes 7 and 8)		
Stockholders' equity:		
Common stock, \$1 par value; authorized 20,000,000 shares; issued and outstanding 1,554,310 shares as of December 31, 2010 and 1,564,310 shares as of December 31, 2009.....	1,554	1,564
Additional paid-in capital	3,281	3,293
Retained earnings.....	48	1,102
Total stockholders' equity.....	<u>4,883</u>	<u>5,959</u>
Total liabilities and stockholders' equity	<u>\$ 7,587</u>	<u>8,413</u>

See accompanying notes to financial statements.

PARAGON TECHNOLOGIES, INC.

Statements of Operations

For the Years Ended December 31, 2010, 2009, and 2008

(In Thousands, Except Share and Per Share Data)

	December 31, 2010	December 31, 2009	December 31, 2008
Net sales.....	\$ 8,036	9,243	16,700
Cost of sales.....	6,189	6,753	11,793
Gross profit on sales	<u>1,847</u>	<u>2,490</u>	<u>4,907</u>
Selling, general and administrative expenses	2,888	3,491	5,366
Product development costs	201	137	114
Interest expense	1	-	1
Interest income	(58)	(131)	(341)
Other expense, net	20	15	1
	<u>3,052</u>	<u>3,512</u>	<u>5,141</u>
Loss before income taxes.....	(1,205)	(1,022)	(234)
Income tax expense (benefit)	(151)	(491)	453
Net loss.....	<u>\$ (1,054)</u>	<u>(531)</u>	<u>(687)</u>
Basic loss per share	<u>\$ (.68)</u>	<u>(.33)</u>	<u>(.28)</u>
Diluted loss per share.....	<u>\$ (.68)</u>	<u>(.33)</u>	<u>(.28)</u>
Weighted average shares outstanding.....	1,555,079	1,617,535	2,466,378
Dilutive effect of stock options.....	-	-	-
Weighted average shares outstanding assuming dilution	<u>1,555,079</u>	<u>1,617,535</u>	<u>2,466,378</u>

See accompanying notes to financial statements.

PARAGON TECHNOLOGIES, INC.

Statements of Stockholders' Equity and Comprehensive Income (Loss)

For the Years Ended December 31, 2010, 2009, and 2008

(In Thousands, Except Share Data)

	Common Shares		Additional	Retained	Total	Compre-
	Number	Amount	Paid-In	Earnings	Stockholders'	hensive
			Capital		Equity	Income
						(Loss)
Balance at January 1, 2008	2,769,192	\$ 2,769	5,537	3,947	12,253	
Net loss	-	-	-	(687)	(687)	<u>(687)</u>
Comprehensive loss.....						<u>(687)</u>
Nonvested stock grants, net of amortization.....	(2,500)	(3)	4	-	1	
Repurchase and retirement of common stock..	(980,463)	(980)	(1,960)	(1,627)	(4,567)	
Other incentive plan activity	-	-	5	-	5	
Balance at December 31, 2008	<u>1,786,229</u>	<u>1,786</u>	<u>3,586</u>	<u>1,633</u>	<u>7,005</u>	
Net loss	-	-	-	(531)	(531)	<u>(531)</u>
Comprehensive loss.....						<u>(531)</u>
Amortization of nonvested stock grants.....	-	-	15	-	15	
Repurchase and retirement of common stock..	(221,919)	(222)	(312)	-	(534)	
Other incentive plan activity	-	-	4	-	4	
Balance at December 31, 2009	<u>1,564,310</u>	<u>1,564</u>	<u>3,293</u>	<u>1,102</u>	<u>5,959</u>	
Net loss	-	-	-	(1,054)	(1,054)	<u>(1,054)</u>
Comprehensive loss.....						<u>(1,054)</u>
Repurchase and retirement of common stock..	(10,000)	(10)	(12)	-	(22)	
Balance at December 31, 2010	<u>1,554,310</u>	<u>\$ 1,554</u>	<u>3,281</u>	<u>48</u>	<u>4,883</u>	

See accompanying notes to financial statements.

PARAGON TECHNOLOGIES, INC.

Statements of Cash Flows

For the Years Ended December 31, 2010, 2009, and 2008

(In Thousands)

	December 31, 2010	December 31, 2009	December 31, 2008
Cash flows from operating activities:			
Net loss	\$ (1,054)	(531)	(687)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation of machinery and equipment.....	76	93	129
Deferred income tax expense	-	-	417
Provision for doubtful accounts	-	-	100
Amortization of deferred gain on sale-leaseback.....	-	-	(28)
Stock-based compensation.....	-	19	6
Change in operating assets and liabilities:			
Receivables	(492)	1,630	(113)
Costs and estimated earnings in excess of billings.....	(118)	914	428
Inventories	72	141	154
Prepaid expenses and other current assets	5	13	(10)
Accounts payable	(18)	(530)	(464)
Customers' deposits and billings in excess of costs and estimated earnings	566	(174)	(2,259)
Accrued salaries, wages, and commissions.....	(18)	(37)	18
Income taxes payable.....	(185)	(72)	3
Accrued product warranties.....	(59)	(265)	161
Unearned support contract revenue...	(17)	(48)	138
Accrued other liabilities.....	(19)	(33)	(12)
Net cash provided (used) by operating activities.....	(1,261)	1,120	(2,019)

(Continued)

PARAGON TECHNOLOGIES, INC.Statements of Cash Flows *(Continued)*

For the Years Ended December 31, 2010, 2009, and 2008

(In Thousands)

	December 31, 2010	December 31, 2009	December 31, 2008
Cash flows from investing activities:			
Proceeds from sales of short-term investments.....	-	-	200
Purchases of machinery and equipment	(23)	(3)	(103)
Net cash provided (used) by investing activities	(23)	(3)	97
Cash flows from financing activities:			
Repurchase and retirement of common stock.....	(22)	(534)	(4,567)
Net cash used by financing activities.....	(22)	(534)	(4,567)
Increase (decrease) in cash and cash equivalents	(1,306)	583	(6,489)
Cash and cash equivalents, beginning of period	6,198	5,615	12,104
Cash and cash equivalents, end of period	\$ 4,892	6,198	5,615
Supplemental disclosures of cash flow information:			
Cash paid (received) during the period for:			
Interest expense	\$ 1	-	-
Income taxes.....	\$ (370)	(251)	146

See accompanying notes to financial statements.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements

(1) Description of Business and Summary of Significant Accounting Policies

Description of Business and Concentration of Credit Risk

The Company, based out of Easton, Pennsylvania, (also referred to as "SI Systems") is a specialized systems integrator supplying SI Systems' branded automated material handling systems to manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government. The Company's 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. SI Systems' branded products are utilized to automate the movement or selection of products and are often integrated with other automated equipment such as conveyors and robots. The Company's integrated material handling solutions involve both standard and specially designed components and include integration of non-proprietary automated handling technologies to provide turnkey solutions for its customers' unique material handling needs. The Company's engineering staff develops and designs computer control programs required for the efficient operation of the systems and for optimizing manufacturing, assembly, and fulfillment operations.

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. The Company's products are sold worldwide through its own sales personnel.

In the year ended December 31, 2010, three customers individually accounted for sales of 27.4%, 22.1%, and 10.4%. In the year ended December 31, 2009, one customer accounted for sales of 28.7%. In the year ended December 31, 2008, two customers individually accounted for sales of 19.9% and 18.6%. No other customers accounted for over 10% of sales.

The Company's products are sold on a fixed-price basis. Generally, contract terms provide for progress payments and a portion of the purchase price is withheld by the buyer until the system has been accepted. Generally, contract terms are net 30 days for product and parts sales, with progress payments for system-type projects.

As of December 31, 2010, three customers individually owed the Company 46.7%, 27.2%, and 15.4% in trade receivables. No other customers owed the Company in excess of 10% of trade receivables. The Company believes that the concentration of credit risk in its trade receivables is substantially mitigated by the Company's ongoing credit evaluation process as well as the general creditworthiness of its customer base.

The Company's business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites. The customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. The Company believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in the Company's sales and earnings occur with increases or decreases in major installations.

Use of Estimates

The preparation of the financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The judgments made in assessing the appropriateness of the estimates and assumptions utilized by management in the preparation of the financial statements are based on historical and empirical data and other factors germane to the nature of the risk being analyzed. Materially different results may occur if different assumptions or conditions were to prevail. Estimates and assumptions are mainly utilized to establish the appropriateness of the inventory reserve, warranty reserve, and revenue recognition.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Financial Instruments

The Company believes the carrying values of its assets and liabilities, which are financial instruments, approximate their fair values due to the short-term nature of the instruments.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash on deposit, amounts invested on an overnight basis with a bank, and other highly liquid investments purchased with an original maturity of three months or less. The Company does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts determined by a specific identification of individual accounts. The Company writes off receivables upon determination that no further collections are probable. There was no allowance for doubtful accounts as of December 31, 2010 and December 31, 2009.

A roll-forward of allowance for doubtful accounts activities is as follows (in thousands):

	Beginning Balance <u>January 1</u>	Additions Charged to Costs and Expenses	<u>Deductions</u>	Ending Balance <u>December 31</u>
2010.....	\$ -	-	-	-
2009.....	\$ 100	-	(100)	-
2008.....	\$ -	105	(5)	100

Inventories

Inventories are valued at the lower of average cost or market. Inventories primarily consist of materials purchased or manufactured for stock.

Machinery and Equipment

Machinery and equipment are recorded at cost and are depreciated on the straight-line method over the estimated useful lives of individual assets. The ranges of lives used in determining depreciation rates for machinery and equipment is generally 3 - 7 years. Maintenance and repairs are charged to operations; betterments and renewals are capitalized. Upon sale or retirement of machinery and equipment, the cost and related accumulated depreciation are removed from the accounts and the resultant gain or loss, if any, is credited or charged to earnings.

Asset Impairment

The Company reviews the recovery of the net book value of long-lived assets whenever events and circumstances indicate that the net book value of an asset may not be recoverable. In cases where undiscounted expected future cash flows are less than the net book value, an impairment loss is recognized equal to an amount by which the net book value exceeds the fair value of assets.

Revenue Recognition

Revenues on systems contracts 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.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Revenue Recognition *(Continued)*

Revenues on other sales of parts or equipment are recognized when title transfers pursuant to shipping terms. There are no installation or customer acceptance aspects of these sales.

Revenue on individual support contracts is recognized on a straight-line basis over the one-year term of each individual support contract.

Product Development Costs

The Company expenses product development costs as incurred.

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, typically one and one-half percent of the cost of the system being sold. A detailed review of the liability needed for products still in the warranty period is performed each quarter.

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

	Beginning Balance January 1	Additions (Reductions) Included in Costs and Expenses	Claims	Ending Balance December 31
2010.....	\$ 130	19	(78)	71
2009.....	\$ 395	(245)	(20)	130
2008.....	\$ 234	253	(92)	395

Unearned Support Contract Revenue

The Company offers its Order Fulfillment customers one-year support contracts for an annual service fee. The support contracts cover a customer's single distribution center or warehouse where the Company's products are installed. As part of its support contracts, the Company provides analysis, consultation, and technical information to the customer's personnel on matters relating to the operation of its Order Fulfillment System and related equipment and/or peripherals.

The Company records advance payments for unearned support contracts in the balance sheet as a current liability. Revenue on individual support contracts is deferred and recognized on a straight-line basis over the one-year term of each individual support contract.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Tax benefits for uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination based on its technical merits. The Company classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

(1) Description of Business and Summary of Significant Accounting Policies (Continued)

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with FASB authoritative guidance that addresses all forms of share-based payment awards, including shares issued under employee stock purchase plans, stock options, restricted and nonvested stock, and stock appreciation rights. It requires companies to recognize in the statement of operations the grant-date fair value of stock options and other equity-based compensation issued to employees.

The expense associated with stock-based compensation arrangements is a non-cash charge. In the Statements of Cash Flows, stock-based compensation expense is an adjustment to reconcile net income (loss) to net cash provided (used) by operating activities.

Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2010, 2009, and 2008 are based on the weighted average number of shares outstanding. In addition, diluted earnings per share reflect the effect of dilutive securities which include the shares that would be outstanding assuming the exercise of dilutive stock incentive plan awards. The number of shares that would be issued from the exercise has been reduced by the number of shares that could have been purchased from the proceeds at the average market price of the Company's common stock.

Recently Issued Accounting Pronouncements

Disclosures about Subsequent Events

In May 2009, the FASB established the authoritative guidance on accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. Entities are also required to disclose the date through which subsequent events have been evaluated. The Company adopted this guidance beginning in the fourth quarter of 2009. Adoption of this guidance did not have a material impact on the Company's financial statements. Subsequent events have been evaluated through March 18, 2011.

Multiple Deliverable Revenue Arrangements

In October 2009, the FASB issued Accounting Standards Update (ASU) 2009-13, *Revenue Recognition (Topic 605): Multiple Deliverable Revenue Arrangements* (EITF Issue No. 08-1, "Revenue Arrangements with Multiple Deliverables"). ASU 2009-13 amends FASB ASC Subtopic 60525, *Revenue Recognition—Multiple-Element Arrangements*, to eliminate the requirement that all undelivered elements have vendor specific objective evidence of selling price (VSOE) or third party evidence of selling price (TPE) before an entity can recognize the portion of an overall arrangement fee that is attributable to items that already have been delivered. In the absence of VSOE and TPE for one or more delivered or undelivered elements in a multiple-element arrangement, entities will be required to estimate the selling prices of those elements. The overall arrangement fee will be allocated to each element (both delivered and undelivered items) based on their relative selling prices, regardless of whether those selling prices are evidenced by VSOE or TPE or are based on the entity's estimated selling price. Application of the "residual method" of allocating an overall arrangement fee between delivered and undelivered elements will no longer be permitted upon adoption of ASU 2009-13. Additionally, the new guidance will require entities to disclose more information about their multiple-element revenue arrangements. ASU 2009-13 is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company expects that the adoption of ASU 2009-13 in 2011 will not have a material impact on its financial statements.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(2) Uncompleted Contracts

Costs and estimated earnings on uncompleted contracts are as follows *(in thousands)*:

	December 31, 2010	December 31, 2009
Costs and estimated earnings on uncompleted contracts	\$ 4,845	4,720
Less: billings to date	(5,912)	(5,339)
	<u>\$ (1,067)</u>	<u>(619)</u>
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings	\$ 129	11
Customers' deposits and billings in excess of costs and estimated earnings	(1,196)	(630)
	<u>\$ (1,067)</u>	<u>(619)</u>

(3) Line of Credit

On February 19, 2009, the Company established a \$5,000,000 line of credit facility with its principal bank to be used primarily for working capital purposes. On December 1, 2010, the amount of the line of credit facility was reduced to \$3,500,000. Interest on the line of credit facility is at the LIBOR Market Index Rate plus 1.25%. As of December 31, 2010, the Company did not have any borrowings under the line of credit facility; however, the leasing agreement associated with the Company's principal office is secured with a \$200,000 letter of credit. Therefore, as of December 31, 2010, the amount available under the line of credit was \$3,300,000. There were no borrowings outstanding during 2010.

The line of credit facility contains various non-financial covenants and is secured by all of the Company's accounts receivable and inventory. The Company was in compliance with all covenants as of December 31, 2010. The line of credit expires on November 30, 2011.

(4) Stock Options and Nonvested Stock

1997 Equity Compensation Plan

The Company's stock-based compensation program, the 1997 Equity Compensation Plan ("ECP"), expired in July 2007. Prior to expiration, the ECP provided for grants of stock options, restricted and nonvested stock, and stock appreciation rights to selected employees, key advisors who performed valuable services, and directors of the Company. In addition, the ECP provided for grants of performance units to employees and key advisors. Prior to expiration, the ECP, as amended by stockholders in August 2000 and June 2001, authorized up to 1,012,500 shares of common stock for issuance pursuant to the terms of the plan. No further grants are available under the plan.

Under the Company's ECP, officers, directors, and key employees have been granted options to purchase shares of common stock at the market price at the date of grant. Options vest in four equal annual installments beginning on the first anniversary of the date of grant; thus, at the end of four years, the options are fully exercisable. Vested stock option awards may be exercised through payment of cash, exchange of mature shares, or through a broker. As of December 31, 2010, 5,000 options are outstanding under the plan, and all options have a term of seven years. The exercise price of the options outstanding under the plan is \$10.01.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(4) Stock Options and Nonvested Stock *(Continued)*

1997 Equity Compensation Plan *(Continued)*

Stock-based compensation expense recognized during the years ended December 31, 2010, 2009, and 2008 for stock-based compensation programs was \$0, \$19,000, and \$6,000, respectively. Stock-based compensation expense recognized during the years ended December 31, 2010, 2009, and 2008 consisted of expensing \$0, \$4,000, and \$5,000, respectively, for employee stock options, and \$0, \$15,000, and \$1,000, respectively, for nonvested stock. All of the stock-based compensation expense recognized was a component of selling, general and administrative expenses.

On December 16, 2009, with the approval of the Compensation Committee, the Board of Directors accelerated the vesting of the 5,000 shares of nonvested stock and 5,000 stock options from the original date of full vesting of March 8, 2010 to December 16, 2009. All of the unrecognized compensation cost associated with the acceleration of vesting of the nonvested stock and stock options was recognized during the fourth quarter of 2009. There is no further compensation cost to be recognized on nonvested stock and stock options.

Stock Options

A summary of stock option activity is presented below:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2010.....	5,000	\$10.01		
Granted	-	-		
Exercised	-	-		
Forfeited	-	-		
Outstanding at December 31, 2010...	<u>5,000</u>	<u>\$10.01</u>	2.2	\$ -
Exercisable at December 31, 2010....	5,000	\$10.01	2.2	\$ -

There were no stock options granted or exercised during the years ended December 31, 2010, 2009, and 2008, and no further grants are available under the plan.

There is no further compensation cost to be recognized on the stock option awards.

Nonvested Stock

There are no nonvested stock awards outstanding as of December 31, 2010, and there is no further compensation cost to be recognized on the nonvested stock awards.

(5) Employee Benefit Plans

The Company has a defined contribution Retirement Savings Plan for its employees. Employees age 21 and above, with at least 90 days of service, are eligible to participate in the Plan. Effective March 30, 2009, Company contributions under the Company's Retirement Savings Plan have been suspended for an indefinite period of time as part of a cost-reduction initiative. Under the 401(k) feature of the Plan, prior to March 30, 2009 the Company matched 100% of the first 3% of pay which the employee contributed to the Plan and 50% of the next 2% of pay which the employee contributed to the Plan. The Plan also contains provisions for profit sharing contributions in the form of cash as determined annually by the Company's Board of Directors; however, there were no profit sharing contributions for the years ended December 31, 2010, 2009, and 2008. Total expense for the Retirement Savings Plan was \$1,000, \$38,000, and \$168,000 for the years ended December 31, 2010, 2009, and 2008, respectively.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(6) Income Taxes

The provision for income tax expense (benefit) consists of the following *(in thousands)*:

	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008
Federal - current.....	\$ 21	(424)	(5)
- deferred.....	-	-	213
	<u>21</u>	<u>(424)</u>	<u>208</u>
State - current.....	(172)	(67)	41
- deferred.....	-	-	204
	<u>(172)</u>	<u>(67)</u>	<u>245</u>
	<u>\$ (151)</u>	<u>(491)</u>	<u>453</u>

The reconciliation between the U.S. federal statutory rate and the Company's effective income tax rate is *(in thousands)*:

	For the Year Ended December 31, 2010	For the Year Ended December 31, 2009	For the Year Ended December 31, 2008
Computed tax expense (benefit) at statutory rate of 34%	\$ (410)	(347)	(80)
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal benefit	(47)	(33)	4
Tax-exempt interest	-	-	(1)
Meals and entertainment deduction	14	17	25
Change in tax contingency reserve	(129)	(48)	(4)
Valuation allowance	395	(105)	498
Miscellaneous items.....	26	25	11
	<u>\$ (151)</u>	<u>(491)</u>	<u>453</u>

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements (Continued)

(6) Income Taxes (Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2010 and 2009 are presented below (in thousands):

	December 31, 2010	December 31, 2009
Deferred tax assets:		
Net operating loss carryforward	\$ 548	143
Credit carryforward.....	-	6
Inventory reserve	216	145
Accrued restructuring costs	11	12
Accrued warranty costs.....	27	48
Tax benefit on reserve for unrecognized tax benefits.....	-	56
Accruals for other expenses, not yet deductible for tax purposes.....	39	39
Total gross deferred tax assets	<u>841</u>	<u>449</u>
Less: valuation allowance	<u>(788)</u>	<u>(393)</u>
Net deferred tax assets	<u>53</u>	<u>56</u>
Deferred tax liabilities:		
Plant and equipment, principally due to differences in depreciation.....	(24)	(26)
Prepaid expenses	(29)	(30)
Total gross deferred tax liabilities	<u>(53)</u>	<u>(56)</u>
Net deferred tax assets	<u>\$ -</u>	<u>-</u>

Valuation allowances are provided to reduce the carrying amount of deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. When assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the appropriate taxing jurisdictions during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in carryback years, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, during 2008, management concluded that the Company's deferred tax assets are more likely than not to expire before the Company can use them. During the year ended December 31, 2010, the Company's management concluded that the full valuation allowance for deferred tax assets is appropriate as the facts and circumstances have not changed the conclusion that a full valuation allowance is necessary.

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

	Beginning Balance January 1	Additions Charged to Costs and Expenses	Charge-Offs	Ending Balance December 31
2010	\$ 393	452	(57)	788
2009	\$ 498	22	(127)	393
2008	\$ -	498	-	498

The valuation allowance of \$788,000 as of December 31, 2010 was primarily related to \$788,000 of net deferred tax assets. The valuation allowance for deferred tax assets primarily relates to inventory, warranty, net operating loss carryforwards, and other temporary differences.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(6) Income Taxes *(Continued)*

The valuation allowance of \$393,000 as of December 31, 2009 was primarily related to \$337,000 of net deferred tax assets and \$56,000 of the federal income tax effect of state unrecognized tax benefits. The valuation allowance for deferred tax assets primarily relates to inventory, warranty, net operating loss carryforwards, and other temporary differences.

The valuation allowance of \$498,000 as of December 31, 2008 was primarily related to \$418,000 of net deferred tax assets and \$80,000 of the federal income tax portion of unrecognized tax benefits. The valuation allowance for deferred tax assets primarily relates to inventory, warranty, net operating loss carryforwards, and other temporary differences.

Tax benefits for uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination based on its technical merits.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, exclusive of interest and penalties, is as follows (in thousands):

Balance at January 1, 2008	\$ 203
Lapse of statute.....	(24)
Balance at December 31, 2008	<u>179</u>
Lapse of statute.....	(59)
Balance at December 31, 2009	<u>120</u>
Lapse of statute.....	(120)
Balance at December 31, 2010	<u><u>\$ -</u></u>

As of December 31, 2010, there were no unrecognized tax benefits. As of December 31, 2009, the Company's unrecognized tax benefits totaled \$185,000, all of which would impact the effective tax rate if recognized. As of December 31, 2008, the Company's net unrecognized tax benefits totaled \$257,000, all of which would impact the effective tax rate if recognized.

The Company classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision. For the years ended December 31, 2010, 2009, and 2008, \$(65,000), \$(13,000), and \$1,000, respectively, of expense (benefit) related to interest and penalties, net of federal benefit, was recognized in the statements of operations.

During the years ended December 31, 2010, 2009, and 2008, the Company decreased the total unrecognized tax benefits by \$120,000, \$59,000, and \$24,000, respectively, due to the expiration of statutes of limitations.

The Company is subject to U.S. federal income tax as well as income tax of multiple state and foreign jurisdictions. The Company has substantially concluded all U.S. federal income tax matters for years through 2005. The Company files tax returns in approximately 30 state taxing jurisdictions. The Company has substantially concluded state income tax matters for years through 2003.

(7) Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. Although the amount of any liability that could arise with respect to currently pending actions cannot be accurately predicted, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(8) Commitments

The Company's principal office is located in Easton, Pennsylvania. In connection with the February 21, 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 required fixed monthly rental payments of \$19,345 during the fifth year of the lease, which ran from February 21, 2007 through February 20, 2008. The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The leasing agreement is secured with a \$200,000 letter of credit.

On November 14, 2007, the Company amended the lease agreement to extend the term of the lease for a period of five years, commencing immediately upon the February 21, 2008 expiration date of the original term of the lease. The amended lease agreement requires fixed monthly rental payments of \$18,000 for five years through the February 20, 2013 expiration date of the lease. The amended lease agreement incorporates the terms and conditions of the original lease agreement.

Total rental expense in the years ended December 31, 2010, 2009, and 2008 approximated \$247,000, \$251,000, and \$244,000, respectively.

Future minimum rental commitments at December 31, 2010 are as follows *(in thousands)*:

	<u>Operating Leases</u>
2011	\$ 216
2012	216
2013	36
2014	-
2015	-
After 2015	-
Total	<u>\$ 468</u>

(9) Stock Repurchase Program

On August 12, 2004, the Company's Board of Directors approved a program to repurchase up to \$1,000,000 of its outstanding common stock. The Company's Board of Directors amended its existing stock repurchase program on several occasions during 2005, 2006, 2007, and 2008 by increasing the amount it has authorized management to repurchase from up to \$1,000,000 of the Company's common stock to up to \$22,000,000.

During the year ended December 31, 2010, the Company repurchased 10,000 shares of common stock at a weighted average cost, including brokerage commissions, of \$2.23 per share. Cash expenditures for the stock repurchases during the year ended December 31, 2010 were \$22,256.

During the year ended December 31, 2009, the Company repurchased 221,919 shares of common stock at a weighted average cost, including brokerage commissions, of \$2.40 per share. Cash expenditures for the stock repurchases during the year ended December 31, 2009 were \$533,606.

During the year ended December 31, 2008, the Company repurchased 980,463 shares of common stock at a weighted average cost, including brokerage commissions, of \$4.66 per share. Cash expenditures for the stock repurchases during the year ended December 31, 2008 were \$4,567,189.

PARAGON TECHNOLOGIES, INC.
Notes To Financial Statements *(Continued)*

(9) Stock Repurchase Program *(Continued)*

From the inception of the Company's stock repurchase program on August 12, 2004 through December 31, 2010, the Company repurchased 2,850,100 shares of common stock at a weighted average cost, including brokerage commissions, of \$6.75 per share. Cash expenditures for the stock repurchases since the inception of the program were \$19,239,194. As of December 31, 2010, \$2,760,806 remained available for repurchases under the stock repurchase program.

Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions at the discretion of the Company. There is no expiration date with regard to the stock repurchase program. The purchase price for the shares of the Company's common stock repurchased and retired was reflected as a reduction to stockholders' equity. The Company allocates the purchase price of the repurchased shares as a reduction to common stock for the par value of the shares repurchased, with the excess of the purchase price over par value being allocated to additional paid-in capital and retained earnings. All shares of common stock that were repurchased by the Company since the inception of the program were subsequently retired.
