



QUARTERLY REPORT
FOR THE PERIOD ENDED
March 31, 2012

PARAGON TECHNOLOGIES, INC.

600 Kuebler Road
Easton, PA 18040
Phone: 610-252-3205
Fax: 610-252-3102

**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

PARAGON TECHNOLOGIES, INC.

Quarterly Report

For The Period Ended March 31, 2012

Item 1. 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.

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.

The Company's contact information is as follows:

Paragon Technologies, Inc.
Attention: William J. Casey, Acting Chief Executive Officer
600 Kuebler Road
Easton, PA 18040-9201
Phone:.....(610) 252-3205
Fax:.....(610) 252-3102
Internet:.....www.ptgamex.com
E-mail:.....info@ptgamex.com

Item 2. Shares outstanding:

The number of shares or total amount of the securities outstanding for each class of securities authorized is as follows:

Year-End Date	Common Shares		
	March 31, 2012	December 31, 2011	December 31, 2010
Number of shares authorized	20,000,000	20,000,000	20,000,000
Number of shares outstanding	1,554,310	1,554,310	1,554,310
Shares owned by directors and officers	383,896	515,615	435,415
Freely tradable shares (<i>public float</i>)	1,170,414	1,038,695	1,118,895
Total number of beneficial shareholders	341	354	410
Total number of shareholders of record	228	230	235

As of March 31, 2012, there were 1,554,310 shares of the Company's Common Stock issued and outstanding. As of the filing of this Quarterly Report, there were 1,554,310 shares of the Company's Common Stock issued and outstanding.

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

American Stock Transfer & Trust Company, LLC
59 Maiden Lane
New York, NY 10038
Phone:.....(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 3. Interim financial statements:

The Company's financial statements as of and for the period ended March 31, 2012 are incorporated by reference and can be found at the end of this Quarterly Report. The financial statements as of and for the period ended March 31, 2012 include (1) balance sheets, (2) statements of operations, (3) statements of cash flows, (4) statements of stockholders' equity, and (5) notes to financial statements.

PARAGON TECHNOLOGIES, INC.
Quarterly Report
For The Period Ended March 31, 2012 *(Continued)*

Item 4. Management's discussion and analysis or plan of operation:

The Company's Management Discussion and Analysis for the period ended March 31, 2012 is attached and is incorporated herein by reference.

Item 5. Legal proceedings:

None for the period ended March 31, 2012 and through the date of this report.

Item 6. Default upon senior securities:

None for the period ended March 31, 2012 and through the date of this report.

Item 7. Other information:

a. Entry into a Material Definitive Agreement:

None for the period ended March 31, 2012 and through the date of this report.

b. Termination of a Material Definitive Agreement:

None for the period ended March 31, 2012 and through the date of this report.

c. Completion of Acquisition or Disposition of Assets, Including but not Limited to Mergers:

None for the period ended March 31, 2012 and through the date of this report.

d. Creation of a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement of an Issuer:

None for the period ended March 31, 2012 and through the date of this report.

e. Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement:

None for the period ended March 31, 2012 and through the date of this report.

f. Costs Associated with Exit or Disposal Activities:

None for the period ended March 31, 2012 and through the date of this report.

g. Material Impairments:

None for the period ended March 31, 2012 and through the date of this report.

h. Sales of Equity Securities:

None for the period ended March 31, 2012 and through the date of this report.

PARAGON TECHNOLOGIES, INC.
Quarterly Report
For The Period Ended March 31, 2012 *(Continued)*

Item 7. Other information: (Continued)

i. Material Modification to Rights of Security Holders:

None for the period ended March 31, 2012 and through the date of this report.

j. Changes in Issuer's Certifying Accountant:

None for the period ended March 31, 2012 and through the date of this report.

k. Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review:

None for the period ended March 31, 2012 and through the date of this report.

Under current OTC Markets Group Inc.'s requirements, our independent registered public accounting firm, ParenteBeard LLC, is not required to review these interim financial statements and filings.

l. Changes in Control of Issuer:

None for the period ended March 31, 2012 and through the date of this report.

m. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers:

Mr. Peter H. Kamin served on the Board of Directors of the Company until his resignation on February 24, 2012. Due to increasing levels of activity at his own business, Mr. Kamin no longer had the time to serve as a director of the Company. Mr. Kamin did not have any disagreements with the Company on any matters relating to the Company's operations, policies, or practices. Mr. Kamin served on the Company's Committee on Strategic Alternatives.

On February 27, 2012, the Board of Directors of the Company unanimously voted to elect Mr. Samuel S. Weiser as a director of the Company. On March 15, 2012, the Board of Directors appointed Mr. Weiser as Chairman of the Audit Committee and a member of the Nominating Committee.

Mr. Theodore W. Myers served on the Board of Directors of the Company until his resignation on March 13, 2012. Mr. Myers did not have any disagreements with the Company on any matters relating to the Company's operations, policies, or practices. Mr. Myers served as the Chairman of the Board of the Company, Chairman of the Audit Committee, Chairman of the Compensation Committee, Chairman of the Nominating Committee, and Chairman of the Committee on Strategic Alternatives.

On March 14, 2012, the Board of Directors of the Company appointed Hesham M. Gad as Chairman of the Board, replacing Mr. Myers as Chairman. On March 15, 2012, the Board of Directors appointed Mr. Gad as Chairman of the Compensation Committee and Chairman of the Nominating Committee.

PARAGON TECHNOLOGIES, INC.
Quarterly Report
For The Period Ended March 31, 2012 *(Continued)*

Item 7. Other information: *(Continued)*

m. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers: *(Continued)*

Also, on March 14, 2012, the Board of Directors of the Company unanimously voted to elect Mr. Jack H. Jacobs as a director of the Company. On March 15, 2012, the Board of Directors appointed Mr. Jacobs as a member of the Audit Committee and the Compensation Committee.

Mr. Robert J. Schwartz served on the Board of Directors of the Company until his resignation on March 14, 2012. Mr. Schwartz did not have any disagreements with the Company on any matters relating to the Company's operations, policies, or practices. Mr. Schwartz served on the Company's Audit Committee, Compensation Committee, and the Nominating Committee.

On March 15, 2012, Mr. Leonard S. Yurkovic resigned as a director and Acting Chief Executive Officer (CEO) of the Company. Mr. Yurkovic did not have any disagreements with the Company on any matters relating to the Company's operations, policies, or practices. Mr. Yurkovic served on the Company's Committee on Strategic Alternatives.

On March 15, 2012, the Board of Directors appointed Executive Vice President, Mr. William J. Casey, to the position of Acting CEO, replacing Mr. Yurkovic as Acting CEO. Also, the Board of Directors decreased the size of the Board of Directors to three (3) members.

On March 15, 2012, the Board of Directors disbanded the Committee on Strategic Alternatives of the Board. The Committee on Strategic Alternatives' responsibilities included, but was not limited to such matters as assessing alternate uses of capital and studying strategic alternatives to enhance shareholder value. The Board of Directors decided that given its current size and composition, a separate Committee on Strategic Alternatives was no longer necessary. Rather, the entire Board of Directors would work together to assess alternate uses of capital and study strategic alternatives to enhance shareholder value. The members of the Committee of Strategic Alternatives prior to its dissolution were Peter H. Kamin, Theodore W. Myers, and Leonard S. Yurkovic.

The current members of the Company's Board of Directors are as follows:

Hesham M. Gad, Chairman
Jack H. Jacobs
Samuel S. Weiser

The current executive officers of the Company are as follows:

William J. Casey, Acting CEO
Ronald J. Semanick, Chief Financial Officer, Vice President-
Finance, Treasurer, and Corporate Secretary

PARAGON TECHNOLOGIES, INC.
Quarterly Report
For The Period Ended March 31, 2012 *(Continued)*

Item 7. Other information: *(Continued)*

m. Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers: *(Continued)*

The current members of the Audit Committee are Mr. Weiser, Chairman, and Mr. Jacobs. The current members of the Compensation Committee are Mr. Gad, Chairman, and Mr. Jacobs. The current members of the Nominating Committee are Mr. Gad, Chairman, and Mr. Weiser.

Effective April 1, 2012, the Board of Directors compensation is as follows:

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; a fee of \$2,500 for each Board meeting attended in person; and a fee of \$500 for each Board meeting held by telephone conference. The Chairman of the Audit Committee receives a fee of \$1,000 per Audit Committee meeting, while other non-employee directors serving on committees of the Board of Directors receive meeting fees of \$500 per committee meeting of the Board of Directors. Directors are also reimbursed for their lodging expenses, if necessary, incurred in attending Board and Committee Meetings.

n. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year:

None for the period ended March 31, 2012 and through the date of this report.

o. Amendments to Issuer's Code of Ethics, or Waiver of a Provision of the Code of Ethics:

None for the period ended March 31, 2012 and through the date of this report.

Item 8. Exhibits:

None for the period ended March 31, 2012 and through the date of this report.

PARAGON TECHNOLOGIES, INC.
Quarterly Report
For The Period Ended March 31, 2012 *(Continued)*

Item 9. Certifications:

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

- a. I have reviewed the Quarterly Report including the financial statements as of and for the period ended March 31, 2012 and the notes to financial statements 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, 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.

April 18, 2012

/s/ Ronald J. Semanick
Ronald J. Semanick
Chief Financial Officer

I, William J. Casey, Acting Chief Executive Officer of the issuer, certify that:

- a. I have reviewed the Quarterly Report including the financial statements as of and for the period ended March 31, 2012 and the notes to financial statements 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, 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.

April 18, 2012

/s/ William J. Casey
William J. Casey
Acting Chief Executive Officer

INTERIM FINANCIAL STATEMENTS

Financial Statements

Paragon Technologies, Inc.

Balance Sheets (Unaudited)

March 31, 2012 and December 31, 2011

(In Thousands, Except Share and Per Share Data)

	March 31, 2012	December 31, 2011
<u>Assets</u>		
Current assets:		
Cash and cash equivalents.....	\$ 4,822	4,871
Receivables:		
Trade accounts.....	487	838
Other receivables	11	15
Total receivables	<u>498</u>	<u>853</u>
Costs and estimated earnings in excess of billings.....	604	237
Inventories:		
Raw materials.....	120	160
Work-in-process	144	123
Finished goods	321	294
Total inventories	<u>585</u>	<u>577</u>
Prepaid expenses and other current assets	174	101
Total current assets.....	<u>6,683</u>	<u>6,639</u>
Machinery and equipment, at cost:		
Machinery and equipment	1,218	1,208
Less: accumulated depreciation	<u>1,106</u>	<u>1,096</u>
Net machinery and equipment.....	<u>112</u>	<u>112</u>
Total assets.....	<u>\$ 6,795</u>	<u>6,751</u>

See accompanying notes to financial statements.

(Continued)

Financial Statements (Continued)

Paragon Technologies, Inc.

Balance Sheets (Unaudited)

March 31, 2012 and December 31, 2011

(In Thousands, Except Share and Per Share Data)

	March 31, 2012	December 31, 2011
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Accounts payable.....	\$ 857	698
Billings in excess of costs and estimated earnings	408	387
Accrued salaries, wages, and commissions.....	50	110
Accrued product warranties	103	76
Unearned support contract revenue	323	276
Accrued other liabilities.....	135	130
Total current liabilities.....	<u>1,876</u>	<u>1,677</u>
Commitments and contingencies (See Notes 5 and 11)		
Stockholders' equity:		
Common stock, \$1 par value; authorized 20,000,000 shares; issued and outstanding 1,554,310 shares as of March 31, 2012 and December 31, 2011...	1,554	1,554
Additional paid-in capital.....	3,281	3,281
Retained earnings	84	239
Total stockholders' equity.....	<u>4,919</u>	<u>5,074</u>
Total liabilities and stockholders' equity	<u>\$ 6,795</u>	<u>6,751</u>

See accompanying notes to financial statements.

Financial Statements *(Continued)***Paragon Technologies, Inc.**

Statements of Operations (Unaudited)

For the Three Months Ended March 31, 2012 and 2011

(In Thousands, Except Share and Per Share Data)

	Three Months Ended	
	March 31, 2012	March 31, 2011
Net sales	\$ 1,996	2,298
Cost of sales	1,529	1,579
Gross profit on sales	<u>467</u>	<u>719</u>
Operating expenses:		
Selling, general and administrative expenses	600	640
Product development costs	16	16
Total operating expenses	<u>616</u>	<u>656</u>
Operating income (loss)	(149)	63
Other income (expense):		
Interest income	7	12
Other expense, net	(12)	(4)
Total other income (expense), net	<u>(5)</u>	<u>8</u>
Income (loss) before income taxes	(154)	71
Income tax expense	1	1
Net income (loss)	<u>\$ (155)</u>	<u>70</u>
Basic and diluted earnings (loss) per share	<u>\$ (.10)</u>	<u>.04</u>
Weighted average basic and diluted shares outstanding	<u>1,554,310</u>	<u>1,554,310</u>

See accompanying notes to financial statements.

Financial Statements (Continued)
Paragon Technologies, Inc.
Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2012 and 2011
(In Thousands)

	Three Months Ended	
	March 31, 2012	March 31, 2011
Cash flows from operating activities:		
Net income (loss)	\$ (155)	70
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation of machinery and equipment....	12	16
Change in operating assets and liabilities:		
Receivables	355	890
Costs and estimated earnings in excess of billings	(367)	(118)
Inventories	(8)	(46)
Prepaid expenses and other current assets	(73)	(131)
Accounts payable	159	282
Billings in excess of costs and estimated earnings	21	(689)
Accrued salaries, wages, and commissions	(60)	(31)
Accrued product warranties	27	(16)
Unearned support contract revenue	47	(2)
Accrued other liabilities	5	(63)
Net cash provided (used) by operating activities.	<u>(37)</u>	<u>162</u>
Cash flows from investing activities:		
Purchases of machinery and equipment	(12)	-
Net cash used by investing activities	<u>(12)</u>	<u>-</u>
Increase (decrease) in cash and cash equivalents.....	(49)	162
Cash and cash equivalents, beginning of year	4,871	4,892
Cash and cash equivalents, end of period	<u>\$ 4,822</u>	<u>5,054</u>
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest expense.....	\$ -	-
Income taxes	<u>\$ 4</u>	<u>5</u>

See accompanying notes to financial statements.

Financial Statements *(Continued)*
Paragon Technologies, Inc.
 Statements of Stockholders' Equity *(Unaudited)*
 For the Three Months Ended March 31, 2012 and 2011
(In Thousands, Except Share Data)

	Common Stock		Additional	Retained	Total
	Shares	Amount	Paid-In	Earnings	Stockholders'
			Capital		Equity
Balance at December 31, 2010	1,554,310	\$ 1,554	3,281	48	4,883
Net income	-	-	-	70	70
Balance at March 31, 2011	<u>1,554,310</u>	<u>\$ 1,554</u>	<u>3,281</u>	<u>118</u>	<u>4,953</u>
Balance at December 31, 2011	1,554,310	\$ 1,554	3,281	239	5,074
Net loss	-	-	-	(155)	(155)
Balance at March 31, 2012	<u>1,554,310</u>	<u>\$ 1,554</u>	<u>3,281</u>	<u>84</u>	<u>4,919</u>

See accompanying notes to financial statements.

Financial Statements *(Continued)*
Paragon Technologies, Inc.
Notes To Financial Statements (Unaudited)

(1) Basis of Financial Statement Presentation

In the opinion of the management of Paragon Technologies, Inc. ("Paragon" or the "Company"), the unaudited interim financial statements furnished reflect all adjustments and accruals that are necessary to present a fair statement of results for the interim periods. Results for interim periods are not necessarily indicative of results expected for the full fiscal year.

This Quarterly Report should be read in conjunction with, and is qualified in its entirety by reference to, the Financial Statements of the Company and the related Notes thereto appearing in the Company's Annual Report for the year ended December 31, 2011 as filed with the OTC Markets Group Inc. on March 14, 2012. Refer to the Company's Annual Report for the year ended December 31, 2011 for more complete financial information.

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, 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 on fixed price contracts.

(2) Business Operations

Company Overview

Paragon, 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.

Financial Statements *(Continued)*

Paragon Technologies, Inc.

Notes To Financial Statements (Unaudited) *(Continued)*

(2) Business Operations *(Continued)*

Company Overview *(Continued)*

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[®], Mighty MAC[®] (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 Simon[™] 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. The Company maintains its cash and cash equivalents in financial institutions located in Pennsylvania. At times, cash balances may be in excess of F.D.I.C. limits.

(3) Accrued Product Warranties

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.

Financial Statements (Continued)
Paragon Technologies, Inc.
Notes To Financial Statements (Unaudited) (Continued)

(3) Accrued Product Warranties (Continued)

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

	Beginning Balance January 1	Additions (Reductions) Included in		Ending Balance March 31
	_____	Cost of Sales	Claims	_____
2012	\$ 76	27	-	103
2011	\$ 71	(6)	(10)	55

(4) 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 March 31, 2012 and December 31, 2011, 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 at both March 31, 2012 and December 31, 2011 under the line of credit facility. Therefore, as of March 31, 2012 and December 31, 2011, the amount available under the line of credit was \$3,300,000. There were no borrowings outstanding during the three months ended March 31, 2012 and during the year ended December 31, 2011.

The line of credit facility contains various non-financial covenants and is secured by all of the Company's accounts receivables and inventory. The Company was in compliance with all covenants as of March 31, 2012. The line of credit expires on November 30, 2012.

(5) Lease Commitment

The Company leases 25,000 square feet in Easton, Pennsylvania for use as its principal office. The leasing agreement 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.

Financial Statements (Continued)**Paragon Technologies, Inc.**

Notes To Financial Statements (Unaudited) (Continued)

(6) Stock Repurchase Program

The following table represents the periodic repurchases of equity securities made by the Company during the three months ended March 31, 2012:

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
01/01/12 – 01/31/12	-	\$ -	-	\$ -	\$ 2,760,806
02/01/12 – 02/29/12	-	\$ -	-	\$ -	\$ 2,760,806
03/01/12 – 03/31/12	-	\$ -	-	\$ -	\$ 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 March 31, 2012.

From the inception of the Company's stock repurchase program on August 12, 2004 through March 31, 2012, 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 March 31, 2012, \$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 and retired 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.

Financial Statements *(Continued)*

Paragon Technologies, Inc.

Notes To Financial Statements (Unaudited) *(Continued)*

(7) Revenue and Cost Recognition

Revenues on fixed price systems contracts are recorded on the basis of the Company's estimates of the percentage of completion of individual contracts. Revenue and gross profit 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.

Contract costs include all direct material, subcontract and labor costs, and those indirect costs related to contract performance, including but not limited to costs such as indirect labor, supplies, tools, repairs, and depreciation. Selling, general and administrative costs are charged to expense as incurred. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined.

The asset, "Costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed on uncompleted contracts. The liability, "Billings in excess of costs and estimated earnings," represents billings in excess of revenues recognized on uncompleted contracts.

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.

(8) 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 that are in excess over amounts recognized as revenue at the end of each period. Revenue on individual support contracts is deferred and recognized on a straight-line basis over the one-year term of each individual support contract.

Financial Statements (Continued)

Paragon Technologies, Inc.

Notes To Financial Statements (Unaudited) (Continued)

(9) 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 would be an adjustment to reconcile net income (loss) to net cash provided (used) by operating activities.

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 selected 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 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 stock 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 March 31, 2012, 5,000 stock options are outstanding under the plan, and all stock options have a term of seven years and expire on March 8, 2013. The exercise price of the stock options outstanding under the plan is \$10.01.

There was no stock-based compensation expense recognized during the three months ended March 31, 2012 and 2011 and during the year ended December 31, 2011 for stock-based compensation programs.

Stock Options

There were no stock options exercised, forfeited, or granted during the three months ended March 31, 2012 and 2011 and during the year ended December 31, 2011.

Nonvested Stock

There are no nonvested stock awards outstanding as of March 31, 2012 and 2011.

Financial Statements *(Continued)*
Paragon Technologies, Inc.
Notes To Financial Statements (Unaudited) *(Continued)*

(10) 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. Income tax expense is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities.

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.

The Company has federal net operating losses of approximately \$890,000 at December 31, 2011, expiring at various times through December 31, 2031. The Company has state net operating losses of approximately \$2,700,000 at December 31, 2011, expiring of various times based on individual state limits.

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, management has concluded that the Company's deferred tax assets are more likely than not to expire before the Company can use them, and, therefore, the Company's management has concluded that a full valuation allowance for deferred tax assets, net of deferred tax liabilities, was appropriate as of March 31, 2012 and December 31, 2011.

The valuation allowance of \$692,000 as of March 31, 2012 was an offset of net deferred tax assets primarily related to inventory, warranty, net operating loss carryforwards, and other temporary differences.

The valuation allowance of \$639,000 as of December 31, 2011 was an offset of net deferred tax assets primarily related to inventory, warranty, net operating loss carryforwards, and other temporary differences.

As of March 31, 2012 and December 31, 2011, there were no unrecognized tax benefits.

Financial Statements (Continued)
Paragon Technologies, Inc.
Notes To Financial Statements (Unaudited) (Continued)

(10) Income Taxes (Continued)

For the three months ended March 31, 2012 and 2011, there was no expense related to interest and penalties, net of federal benefit, recognized in the statements of operations.

The Company recognized income tax expense during the three months ended March 31, 2012 and 2011 of \$1,000 and \$1,000, respectively. Income tax expense for the three months ended March 31, 2012 and 2011 was primarily related to accruals for state income tax matters. There was no income tax benefit recognized for the loss for the three months ended March 31, 2012 as a result of the valuation allowance offsetting deferred tax assets.

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.

(11) Legal Proceedings

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.

(12) Subsequent Events

Events and transactions for items that should potentially be recognized or disclosed in these financial statements occurring subsequent to the balance sheet date of March 31, 2012 have been evaluated through April 18, 2012, the date which these financial statements were available to be issued.

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited financial statements and related notes thereto included in this Quarterly Report for the period ended March 31, 2012, and the cautionary statements and financial statements and related notes thereto included in the Company's Annual Report for the year ended December 31, 2011. The discussion and analysis contains "forward-looking statements" based on management's current expectations, assumptions, estimates, and projections. These forward-looking statements involve risks and uncertainties. The Company's actual results could differ materially from those included in these "forward-looking statements" as a result of risks and uncertainties identified in connection with those forward-looking statements, including those factors identified herein, and in the Company's other publicly filed reports.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Business Overview

Paragon Technologies, Inc. provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. Founded in 1958, the Company's material handling solutions are based on core technologies in horizontal transportation and order fulfillment and are aimed at improving productivity for manufacturing, assembly, and distribution center operations.

Results of Operations – Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011

Earnings Summary

The Company had a net loss of \$155,000 (or \$0.10 basic loss per share) for the three months ended March 31, 2012, compared to net income of \$70,000 (or \$0.04 basic earnings per share) for the three months ended March 31, 2011. The decrease in net income was primarily due to a decrease during the first three months of 2012 in sales and gross profit of \$302,000 and \$252,000, respectively. Partially offsetting the decrease in net income was a decrease in selling, general and administrative expenses of \$40,000 as described below.

Net Sales and Gross Profit on Sales

	2012	2011
Net sales.....	\$ 1,996,000	2,298,000
Cost of sales.....	1,529,000	1,579,000
Gross profit on sales.....	\$ 467,000	719,000
Gross profit as a percentage of sales.....	23.4%	31.3%

The decrease in sales was associated with a smaller backlog of orders entering 2012 when compared to the backlog of orders entering 2011.

Gross profit, as a percentage of sales, for the three months ended March 31, 2012, when compared to the three months ended March 31, 2011, was unfavorably impacted by 9.0% due to product mix, and favorably impacted by 1.1% due to the increased absorption of overhead costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of \$600,000 were lower by \$40,000 for the three months ended March 31, 2012 than for the three months ended March 31, 2011. The favorable variance in selling, general and administrative expenses was primarily attributable to a decrease of \$46,000 in marketing expenses primarily associated with trade shows and product promotion.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Results of Operations – Three Months Ended March 31, 2012 Compared to the Three Months Ended March 31, 2011 *(Continued)*

Product Development Costs

Product development costs, including patent expense, during the three months ended March 31, 2012 and 2011 were \$16,000 and \$16,000, respectively. Development programs in the three months ended March 31, 2012 and 2011 were primarily aimed at improvements to the Company's Order Fulfillment systems technologies. Order Fulfillment development efforts during the three months ended March 31, 2012 and 2011 included DISPENSIMATIC[®] hardware modifications and enhancements aimed at promoting workplace efficiencies for the Company's customers.

Interest Income

Interest income of \$7,000 was lower by \$5,000 for the three months ended March 31, 2012 than for the three months ended March 31, 2011. 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

The Company recognized income tax expense during the three months ended March 31, 2012 and 2011 of \$1,000 and \$1,000, respectively. Income tax expense for the three months ended March 31, 2012 and 2011 was primarily related to accruals for state income tax matters. There was no income tax benefit recognized for the loss for the three months ended March 31, 2012 as a result of the valuation allowance offsetting deferred tax assets.

Liquidity and Capital Resources

The Company's cash and cash equivalents at March 31, 2012 were \$4,822,000 representing 71.0% of total assets, compared to \$4,871,000, or 72.2% of total assets, at December 31, 2011. The decrease in cash and cash equivalents was primarily due to cash used by operating activities totaling \$37,000 and purchases of capital equipment totaling \$12,000.

Cash used by operating activities totaling \$37,000 during the three months ended March 31, 2012 was primarily due to the following factors:

- a net loss in the amount of \$155,000 for the first three months of 2012;
- an increase in costs and estimated earnings in excess of billings in the amount of \$367,000 in accordance with contractual requirements; and
- an increase in prepaid expenses and other current assets in the amount of \$73,000 primarily associated with the payment of insurance premiums for the current year.

Partially offset by the following factors:

- a decrease in receivables in the amount of \$355,000 in accordance with contractual requirements;
- an increase in unearned support contract revenue in the amount of \$47,000 relating to advance payments for unearned support contracts; and
- an increase in accounts payable in the amount of \$159,000 associated with the purchase of goods and services rendered in accordance with job completion requirements.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Liquidity and Capital Resources *(Continued)*

The Company's cash and cash equivalents at March 31, 2011 were \$5,054,000 representing 70.8% of total assets, compared to \$4,892,000, or 64.5% of total assets, at December 31, 2010. The increase in cash and cash equivalents was due to cash provided by operating activities totaling \$162,000.

Cash provided by operating activities totaling \$162,000 during the three months ended March 31, 2011 was primarily due to the following factors:

- a decrease in receivables in the amount of \$890,000 in accordance with contractual requirements; and
- an increase in accounts payable in the amount of \$282,000 associated with the purchase of goods and services rendered in accordance with job completion requirements.

Partially offset by the following factors:

- an increase in costs and estimated earnings in excess of billings in the amount of \$118,000 in accordance with contractual requirements;
- a decrease in billings in excess of costs and estimated earnings in the amount of \$689,000 in accordance with contractual requirements;
- an increase in prepaid expenses and other current assets in the amount of \$131,000 primarily associated with the payment of insurance premiums for the current year; and
- a decrease in accrued other liabilities in the amount of \$63,000 associated with payments of professional fees.

There were no stock repurchases during the three months ended March 31, 2012 and March 31, 2011. As of March 31, 2012, the Company has \$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 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 March 31, 2012 and December 31, 2011, 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 at both March 31, 2012 and December 31, 2011 under the line of credit facility. Therefore, as of March 31, 2012 and December 31, 2011, the amount available under the line of credit was \$3,300,000. There were no borrowings outstanding during the three months ended March 31, 2012 and during the year ended December 31, 2011.

The line of credit facility contains various non-financial covenants and is secured by all of the Company's accounts receivables and inventory. The Company was in compliance with all covenants as of March 31, 2012. The line of credit facility expires on November 30, 2012.

The Company does not have any material commitments for capital expenditures as of March 31, 2012.

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

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 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 March 31, 2012 as noted above are as follows:

	Total	Payments Due by Period					
		2012	2013	2014	2015	2016	After 2016
Contractual obligations:							
Operating leases	\$ 198,000	162,000	36,000	-	-	-	-
	Total Amounts Committed	Amount of Commitment Expiration Per Period					
		2012	2013	2014	2015	2016	After 2016
Other commercial commitments:							
Letters of credit	\$ 200,000	-	200,000	-	-	-	-

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:

Management's Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Severance *(Continued)*

<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. The Company retains the right to amend or terminate the Severance Policy at any time.

Off-Balance Sheet Arrangements

As of March 31, 2012 and December 31, 2011, the leasing agreement associated with the Company's principal office is secured with a \$200,000 letter of credit under the Company's line of credit. As of March 31, 2012, the Company had no other 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.

Related Party Transactions

From time to time, the Company enters into transactions with related parties. During the three months ended March 31, 2012 and 2011, respectively, and during the year ended December 31, 2011, there were no related party transactions.

Cautionary Statement

Certain statements contained herein are not based on historical fact and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and the Securities and Exchange Commission rules, regulations, and releases. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. Among other things, the forward-looking statements regard the Company's earnings, liquidity, financial condition, review of strategic alternatives, and other matters. Words or phrases denoting the anticipated results of future events, such as "anticipate," "does not anticipate," "should help to," "believe," "estimate," "is positioned," "expects," "may," "will," "will likely," "is expected to," "will continue," "should," "project," and similar expressions that denote uncertainty, are intended to identify such forward-looking statements. The Company's actual results, performance, or achievements could differ materially from the results expressed in, or implied by, such "forward-looking statements": (1) as a result of risks and uncertainties identified in connection with those forward-looking statements, including those factors identified herein, and in the Company's other publicly filed reports; (2) as a result of factors over which the Company has no control, including the strength of domestic and foreign economies, sales growth, competition, and certain costs increases; or (3) if the factors on which the Company's conclusions are based do not conform to the Company's expectations.

Management's Discussion and Analysis of Financial Condition and Results of Operations *(Continued)*

Quantitative and Qualitative Disclosures About Market Risk

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