UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☑ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For The Quarterly Period Ended June 30, 2007

Commission File Number: 1-15729

PARAGON TECHNOLOGIES, INC.

(Exact Name Of Registrant As Specified In Its Charter)

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

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

Indicate by checkmark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☒

Indicate by checkmark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares of the Registrant's Common Stock, $1.00 par value, outstanding as of August 6, 2007 was 2,769,192.

Paragon Technologies, Inc.

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements
Paragon Technologies, Inc.
Balance Sheets (Unaudited) *(Continued)*
June 30, 2007 and December 31, 2006
(In Thousands, Except Share Data)

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 2,296	2,447
Short-term investments	9,255	9,625
Total cash and cash equivalents and short-term investments	11,551	12,072
Receivables:		
Trade	2,437	2,557
Notes and other receivables	464	428
Total receivables	2,901	2,985
Costs and estimated earnings in excess of billings	2,287	444
Inventories:		
Raw materials	159	100
Work-in-process	193	29
Finished goods	444	340
Total inventories	796	469
Deferred income tax benefits	274	288
Prepaid expenses and other current assets	304	112
Total current assets	18,113	16,370
Property, plant and equipment, at cost:		
Machinery and equipment	1,238	1,195
Less: accumulated depreciation	974	919
Net property, plant and equipment	264	276
Deferred income tax benefits	114	96
Other assets	10	10
Total assets	$ 18,501	16,752

See accompanying notes to financial statements.

(Continued)

Paragon Technologies, Inc.

Balance Sheets (Unaudited) *(Continued)*

June 30, 2007 and December 31, 2006

(In Thousands, Except Share Data)

	June 30, 2007	December 31, 2006
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 3,017	1,177
Customers' deposits and billings in excess of costs and estimated earnings	2,286	1,394
Accrued salaries, wages, and commissions	81	132
Income taxes payable	-	541
Accrued product warranty	190	192
Deferred gain on sale-leaseback	110	165
Unearned support contract revenue	264	270
Accrued other liabilities	333	425
Total current liabilities	6,281	4,296
Long-term liabilities:		
Income taxes payable	576	-
Deferred gain on sale-leaseback	-	28
Total long-term liabilities	576	28
Commitments and contingencies		
Stockholders' equity:		
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding 2,769,192 shares as of June 30, 2007 and 2,873,891 shares as of December 31, 2006	2,769	2,874
Additional paid-in capital	5,525	5,720
Retained earnings	3,350	3,834
Total stockholders' equity	11,644	12,428
Total liabilities and stockholders' equity	$ 18,501	16,752

See accompanying notes to financial statements.

Item 1. **Financial Statements** *(Continued)*

Paragon Technologies, Inc.

Statements of Operations (Unaudited)

For the Three and Six Months Ended June 30, 2007 and 2006

(In Thousands, Except Share and Per Share Data)

	Three Months Ended		Six Months Ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
Net sales	$ 6,019	4,823	9,626	9,043
Cost of sales	4,544	3,315	7,221	6,248
Gross profit on sales	1,475	1,508	2,405	2,795
Selling, general and administrative expenses	1,536	1,429	2,940	2,801
Product development costs	18	60	68	216
Interest expense	-	-	-	1
Interest income	(117)	(148)	(229)	(276)
Other income, net	(3)	(47)	(19)	(76)
	1,434	1,294	2,760	2,666
Income (loss) before income taxes	41	214	(355)	129
Income tax expense (benefit)	30	43	(98)	(43)
Net income (loss)	$ 11	171	(257)	172
Basic earnings (loss) per share	$ .00	.05	(.09)	.05
Diluted earnings (loss) per share	$ .00	.05	(.09)	.05
Weighted average shares outstanding	2,780,154	3,495,389	2,811,448	3,514,088
Dilutive effect of stock options	-	7,190	-	7,569
Weighted average shares outstanding assuming dilution	2,780,154	3,502,579	2,811,448	3,521,657

See accompanying notes to financial statements.

Item 1. **Financial Statements** *(Continued)*
Paragon Technologies, Inc.
Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2007 and 2006
(In Thousands, Except Share Data)

	Six Months Ended	
	June 30, 2007	June 30, 2006
Cash flows from operating activities:		
Net income (loss)	$ (257)	172
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation of plant and equipment	55	47
Loss on disposition of equipment	-	2
Amortization of deferred gain on sale-leaseback	(83)	(83)
Stock-based compensation	3	18
Deferred tax expenses	(4)	14
Change in operating assets and liabilities:		
Receivables	84	393
Costs and estimated earnings in excess of billings	(1,843)	46
Inventories	(327)	(233)
Prepaid expenses and other current assets	(192)	84
Accounts payable	1,840	56
Customers' deposits and billings in excess of costs and estimated earnings	892	(179)
Accrued salaries, wages, and commissions	(51)	46
Income taxes payable	72	(59)
Accrued product warranty	(2)	60
Unearned support contract revenue	(6)	2
Accrued other liabilities	(92)	(21)
Net cash provided by operating activities	89	365
Cash flows from investing activities:		
Proceeds from sales of short-term investments	870	4,210
Purchases of short-term investments	(500)	(500)
Purchases of property, plant and equipment	(43)	(97)
Net cash provided (used) by investing activities	327	3,613

See accompanying notes to financial statements.

(Continued)

<u>Item 1</u>. **<u>Financial Statements</u>** *(Continued)*
Paragon Technologies, Inc.
Statements of Cash Flows (Unaudited) *(Continued)*
For the Six Months Ended June 30, 2007 and 2006
(In Thousands, Except Share Data)

	Six Months Ended	
	June 30, 2007	June 30, 2006
Cash flows from financing activities:		
Repurchase and retirement of common stock	(567)	(1,861)
Net cash used by financing activities	(567)	(1,861)
Increase (decrease) in cash and cash equivalents	(151)	2,117
Cash and cash equivalents, beginning of period	2,447	687
Cash and cash equivalents, end of period	$ 2,296	2,804
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest expense	$ -	1
Income taxes	$ (24)	(371)

See accompanying notes to financial statements.

(1) Basis of Financial Statement Presentation

The accompanying unaudited financial statements have been prepared in accordance with the requirements for Form 10-Q and Article 10 of Regulation S-X and, accordingly, certain information and footnote disclosures have been condensed or omitted. 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. Certain prior year amounts have been reclassified to conform to the current year's presentation. Results for interim periods are not necessarily indicative of results expected for the full fiscal year.

This quarterly report should be read in conjunction with, and is qualified in its entirety by reference to, the Consolidated Financial Statements of the Company and the related Notes thereto appearing in the Company's annual report on Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission on March 30, 2007. Refer to the Company's annual report on Form 10-K for the year ended December 31, 2006 for more complete financial information.

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 valuation, warranty reserve, and revenue recognition.

(2) Short-Term Investments

The Company's short-term investments are comprised of debt securities, all classified as available for sale, that are carried at cost, which approximates fair value of the investments at period end. The debt securities include state and municipal bonds. The short-term investments are on deposit with a major financial institution and are supported by letters of credit.

(3) Accrued Product Warranty

The Company's products are warranted against defects in materials and workmanship for varying periods of time depending on customer requirements and the type of system sold, with a typical warranty period of one year. The Company provides an accrual for estimated future warranty costs and potential product liability claims based upon a percentage of cost of sales, typically two percent of the cost of the system being sold, and a detailed review of 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) Charged to Costs and Expenses	Deductions	Ending Balance June 30
2007........................	$ 192	60	(62)	190
2006........................	$ 189	91	(31)	249

(4) 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, originally incorporated in 1958.

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 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 DISPEN-SI-MATIC® and automated order fulfillment solutions and specialized software from the SINTHESIS™ Software Suite. SINTHESIS™ 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 proprietary LO-TOW® and CARTRAC® 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 continues to review opportunities with the goal of maximizing resources, increasing stockholder value, and considering strategies and transactions intended to provide liquidity. At this time, the Company believes that an increase in stockholder value will be best obtained through increases in the Company's internal technology base, strengthening the Company's sales and marketing capabilities, growth of the Company's continuing operations and other higher growth markets, by the enhancement of the Company's products with advanced proprietary software capabilities through research and development efforts and/or possible acquisitions, mergers, and joint ventures. 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 such acquisition.

(4) Business Operations *(Continued)*

The Company's systems vary in configuration and capacity. Historically, system prices across the Company's product lines have ranged from $100,000 to several million dollars per system. Systems and aftermarket sales during the three and six months ended June 30, 2007 and 2006 are as follows *(in thousands):*

For the three months ended June 30, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Sales	% of Total Sales	Sales	% of Total Sales
Systems sales	$ 5,061	84.1%	$ 4,140	85.8%
Aftermarket sales	958	15.9%	683	14.2%
Total sales	$ 6,019	100.0%	$ 4,823	100.0%

For the six months ended June 30, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Sales	% of Total Sales	Sales	% of Total Sales
Systems sales	$ 7,922	82.3%	$ 7,431	82.2%
Aftermarket sales	1,704	17.7%	1,612	17.8%
Total sales	$ 9,626	100.0%	$ 9,043	100.0%

The Company's products are sold worldwide through its own sales personnel. Domestic and international sales during the three and six months ended June 30, 2007 and 2006 are as follows *(in thousands)*:

For the three months ended June 30, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Sales	% of Total Sales	Sales	% of Total Sales
Domestic sales	$ 5,889	97.8%	$ 4,712	97.7%
International sales	130	2.2%	111	2.3%
Total sales	$ 6,019	100.0%	$ 4,823	100.0%

For the six months ended June 30, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Sales	% of Total Sales	Sales	% of Total Sales
Domestic sales	$ 8,945	92.9%	$ 8,901	98.4%
International sales	681	7.1%	142	1.6%
Total sales	$ 9,626	100.0%	$ 9,043	100.0%

(4) Business Operations *(Continued)*

Sales from external customers for each of the Company's products during the three and six months ended June 30, 2007 and 2006 are as follows *(in thousands)*:

For the three months ended June 30, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Sales	% of Total Sales	Sales	% of Total Sales
LO-TOW® sales	$ 2,129	35.4%	$ 1,225	25.4%
CARTRAC® sales	-	-	718	14.9%
DISPEN-SI-MATIC™, SINTHESIS™, and related order fulfillment sales	2,931	48.7%	2,197	45.5%
Other sales	1	-	-	-
Aftermarket sales	958	15.9%	683	14.2%
Total sales	$ 6,019	100.0%	$ 4,823	100.0%

For the six months ended June 30, 2007 and 2006:

	June 30, 2007		June 30, 2006	
	Sales	% of Total Sales	Sales	% of Total Sales
LO-TOW® sales	$ 3,407	35.4%	$ 2,571	28.4%
CARTRAC® sales	54	.5%	912	10.1%
DISPEN-SI-MATIC™, SINTHESIS™, and related order fulfillment sales	4,427	46.0%	3,948	43.7%
Other sales	34	.4%	-	-
Aftermarket sales	1,704	17.7%	1,612	17.8%
Total sales	$ 9,626	100.0%	$ 9,043	100.0%

All of the Company's sales originate in the United States, and there are no long-lived assets existing outside the United States.

The Company's backlog of orders at June 30, 2007 and June 30, 2006 were $10,730,000 and $8,292,000, respectively.

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.

(5) Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109, Accounting for Income Taxes, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The Company adopted the provisions of FIN 48 on January 1, 2007 as described in Note 11 of the Notes to Financial Statements.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS No. 157 does not expand or require any new fair value measures. The provisions of SFAS No. 157 are to be applied prospectively and are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on the Company's financial statements.

(6) Sale-Leaseback

The Company's principal office is located in a 173,000 square foot, concrete, brick, and steel facility in Easton, Pennsylvania. In connection with the February 2003 sale of the Company's Easton, Pennsylvania facility, the Company entered into a leaseback arrangement for 25,000 square feet of office space for five years. The leasing agreement requires fixed monthly rentals of $19,345 (with annual increases of 3%). The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The leasing agreement is secured with a $200,000 letter of credit. The lease expires on February 21, 2008.

In accordance with SFAS No. 13 and SFAS No. 28, the leaseback does not meet the criteria for classification as a capital lease; hence, it is classified as an operating lease. The sale-leaseback resulted in a total gain of $2,189,000, of which $1,363,000 was recorded as a gain in 2003. The seller-lessee (Company) retained more than a minor part (25,000 square feet) but less than substantially all of the use of the property (173,000 square feet) through the leaseback and realized a profit on the sale in excess of the present value of the minimum lease payments over the lease term. The present value of the stream of lease payments utilizing the Company's incremental borrowing rate of 10.0% was $826,000. The $826,000 of deferred profit is amortized in equal amounts as a reduction in rent expense over the five-year term of the lease. During the three months ended June 30, 2007 and 2006, $42,000 and $41,000, respectively, of the deferred gain was recognized. During the six months ended June 30, 2007 and 2006, $83,000 and $83,000, respectively, of the deferred gain was recognized.

(7) Line of Credit

The Company has a line of credit facility which may not exceed $5,000,000 and is to be used primarily for working capital purposes. Interest on the line of credit facility is at the LIBOR Market Index Rate plus 1.4%. As of June 30, 2007, 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 June 30, 2007, the amount of available line of credit was $4,800,000.

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 June 30, 2007. The line of credit facility expires effective June 30, 2008.

(8) 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 and 2006 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 $14,000,000.

On January 7, 2007, 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 $14,000,000 of the Company's common stock to up to $15,000,000.

During the three months ended June 30, 2007, the Company repurchased 43,849 shares of common stock at a weighted average cost, including brokerage commissions, of $5.69 per share. During the six months ended June 30, 2007, the Company repurchased 99,699 shares of common stock at a weighted average cost, including brokerage commissions, of $5.68 per share. Cash expenditures for the stock repurchases during the three and six months ended June 30, 2007 were $249,555 and $566,732, respectively. Through June 30, 2007, the Company repurchased 1,637,718 shares of common stock at a weighted average cost, including brokerage commissions, of $8.62 per share. Cash expenditures for the stock repurchases since the inception of the program were $14,116,143. As of June 30, 2007, $883,857 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 compliance with SEC regulations, 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 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 between 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.

(9) 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.

(10) Stock-Based Compensation

Effective January 1, 2006, the Company adopted SFAS No. 123R and began expensing the grant-date fair value of employee stock options over the related requisite service period.

The Company adopted SFAS No. 123R using the modified prospective transition method. Under this transition method, compensation cost associated with employee stock options recognized after December 31, 2005 includes attribution of the fair value related to the remaining unvested portion of stock option awards granted prior to January 1, 2006, if any, and attribution related to new awards granted after January 1, 2006.

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 cash provided (used) by operating activities. SFAS No. 123R requires that certain cash flows resulting from tax deductions in excess of compensation cost recognized in the financial statements be classified as financing cash flows. For the six months ended June 30, 2007 and for the year ended December 31, 2006, no excess tax benefits were generated.

1997 Equity Compensation Plan

The Company has a stock-based compensation program, the 1997 Equity Compensation Plan ("ECP"), which will expire in July 2007. The ECP provides for grants of stock options, restricted and nonvested stock, and stock appreciation rights to selected key employees, key advisors who perform valuable services, and directors of the Company. In addition, the ECP provides for grants of performance units to employees and key advisors. The ECP, as amended by stockholders in August 2000 and June 2001, authorizes up to 1,012,500 shares of common stock for issuance pursuant to the terms of 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 June 30, 2007, 7,500 options are outstanding under the plan, and all options have a term of seven years.

(10) Stock-Based Compensation *(Continued)*

Stock-based compensation expense recognized during the three months ended June 30, 2007 and 2006 for stock-based compensation programs was $6,000 and $10,000, respectively. Stock-based compensation expense recognized during the three months ended June 30, 2007 and 2006 consisted of expensing $1,000 and $2,000, respectively, for employee stock options, and $0 and $0, respectively, for directors' stock options, and $5,000 and $8,000, respectively, for nonvested stock.

Stock-based compensation expense recognized during the six months ended June 30, 2007 and 2006 for stock-based compensation programs was $3,000 and $18,000, respectively. Stock-based compensation expense recognized during the six months ended June 30, 2007 and 2006 consisted of expensing $3,000 and $3,000, respectively, for employee stock options, and $0 and $5,000, respectively, for directors' stock options, and $0 and $10,000 respectively, for nonvested stock.

All of the stock-based compensation expense recognized was a component of selling, general and administrative expenses. Income was recognized during the three months ended March 31, 2007 as a result of the forfeiture of 5,000 shares of nonvested stock due to the resignation of Mr. Hoffner from the Company effective March 1, 2007.

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, 2007	32,500	$ 8.89		
Granted	-	-		
Exercised	-	-		
Forfeited	(25,000)	8.56		
Outstanding at June 30, 2007	7,500	$ 10.01	5.7	$ 19,500
Exercisable at June 30, 2007	1,875	$ 10.01	5.7	$ 4,875

There were no stock options granted during the six months ended June 30, 2007.

The compensation expense charged against income during the three months ended June 30, 2007 and 2006 for stock options was $1,000 and $2,000, respectively. The compensation expense charged against income during the six months ended June 30, 2007 and 2006 for stock options was $3,000 and $8,000, respectively. The total compensation expense of $23,000 is expected to be recognized on the straight-line basis over the stated vesting period consistent with the terms of the arrangement. As of June 30, 2007, there is unrecognized compensation cost of $13,000 on the stock option awards which will be recognized over the next 2.7 years.

As of December 31, 2005, there were no unvested employee stock options. Therefore, no compensation cost related to stock options granted to employees prior to January 1, 2006 was recognized.

(10) Stock-Based Compensation *(Continued)*

Nonvested Stock

The grant-date fair value of nonvested stock is determined on the date of grant based on the market price of the stock, and compensation cost is generally amortized to expense on a straight-line basis over the vesting period during which employees perform related services.

On March 8, 2006, the Company issued 12,500 shares of nonvested stock to its executive officers. Participants are entitled to cash dividends and to vote their respective shares. The shares are subject to forfeiture if employment is terminated prior to March 8, 2010.

On March 1, 2007, Mr. Hoffner resigned from his positions as President and CEO and as a director of the Company. Due to his resignation from the Company, Mr. Hoffner forfeited his 5,000 shares of nonvested stock.

A summary of nonvested stock activity is presented below:

	Nonvested Shares	Grant Date Fair Value
Nonvested at January 1, 2007	12,500	$ 10.01
Granted	-	-
Vested	-	-
Forfeited	(5,000)	10.01
Nonvested at June 30, 2007	7,500	$ 10.01

The compensation expense recognized during the three months ended June 30, 2007 and 2006 for nonvested stock awards was $5,000 and $8,000, respectively. The compensation expense recognized during the six months ended June 30, 2007 and 2006 for nonvested stock awards was $0 and $10,000, respectively. The total compensation cost of $75,000 is expected to be recognized on the straight-line basis over the four-year vesting period consistent with the terms of the arrangement. As of June 30, 2007, there is unrecognized compensation cost of $50,000 on the nonvested stock awards which will be recognized over the next 2.7 years.

(11) 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.

(11)Income Taxes *(Continued)*

On January 1, 2007, the Company adopted the Financial Accounting Standards Board Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure.

As a result of the implementation of FIN 48, the Company recognized a decrease of $37,000 in the liability for unrecognized tax benefits, which was accounted for as an increase to the January 1, 2007 balance of retained earnings. As of the date of adoption and after the impact of recognizing the decrease in liability noted above, the Company's unrecognized tax benefits totaled $692,000, of which $590,000 would impact the effective tax rate if recognized.

The Company recognizes interest and penalties to income tax matters in income tax expense. In conjunction with the adoption of FIN 48, the Company recognized approximately $117,000 ($80,000, net of federal benefit) for potential interest and penalties at January 1, 2007 which is included as a component of the $692,000 unrecognized tax benefit noted above. During the three and six months ended June 30, 2007, there was no material change in the unrecognized tax benefits or the amount of accrued interest and penalties. 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 estimates that the total unrecognized tax benefits may decrease by approximately $350,000 due to the expiration of statutes of limitations prior to June 30, 2008.

With few exceptions, the Company is no longer subject to examination by major taxing authorities and jurisdictions (including U.S. Federal) for years prior to 2003.

The Company recognized income tax expense of $30,000 during the three months ended June 30, 2007 compared to income tax expense of $43,000 during the three months ended June 30, 2006. Income tax expense for the three months ended June 30, 2007 was higher than statutory federal and state tax rates primarily due to an adjustment in the effective income tax rate expected to apply based on the projected profitability of the Company for 2007. Income tax expense for the three months ended June 30, 2006 was lower than statutory federal and state tax rates primarily due to the effect of tax-exempt interest on certain investments on the annualized effective rate.

The Company recognized an income tax benefit of $98,000 during the six months ended June 30, 2007 compared to an income tax benefit of $43,000 during the six months ended June 30, 2006. The income tax benefit for the six months ended June 30, 2007 was lower than statutory federal and state tax rates primarily due to the effect of tax-exempt interest on certain investments on the annualized effective rate. The income tax benefit for the six months ended June 30, 2006 was higher than statutory federal and state tax rates primarily due to the reversal of accruals for the expiration of tax return statutes and the effect of tax-exempt interest on certain investments on the annualized effective rate.

(12) 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.

(13) Subsequent Events

On August 1, 2007, Mr. L. Jack Bradt retired as a director of the Company.

At the Annual Meeting of Stockholders held on August 1, 2007, the stockholders did not approve the Company’s 2007 Equity Incentive Plan.

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

The following discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the unaudited financial statements and related notes thereto included in this Quarterly Report on Form 10-Q for the period ended June 30, 2007, and the cautionary statements and consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006. The discussion and analysis contains "forward-looking statements" based on management's current expectations, assumptions, estimates, and projections. These forward-looking statements involve risks and uncertainties. The Company's actual results could differ materially from those included in these "forward-looking statements" as a result of risks and uncertainties identified in connection with those forward-looking statements, including those factors identified herein, and in the Company's other publicly filed reports.

Business Overview

Paragon Technologies, Inc. provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. 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.

Key Performance Metrics Relevant to the Company

Capacity Utilization

Capacity Utilization, as documented in the Federal Reserve Statistical Release[1], is a key economic indicator that the Company follows as a barometer that may lead to capital spending for material handling systems. Capacity Utilization attempts to measure what percent of available capacity is actually being utilized. Management believes that when Capacity Utilization rises and falls, the Company may see a corresponding change in the rate of new orders, and therefore, a corresponding change in backlog and sales may also occur. The backlog of orders represents the uncompleted portion of systems contracts along with the value of parts and services from customer purchase orders related to goods that have not been shipped or services that have not been rendered. Backlog is generally indicative of customer demand for the Company's products. As the demand for the Company's products increases, the backlog of orders, the rate of new orders, and sales also typically increases. The following table depicts the Company's backlog, orders, sales, and Capacity Utilization for the six months ended June 30, 2007, and for the years ended December 31, 2006, 2005, 2004, 2003, and 2002:

	Six Months Ended June 30,	Year Ended December 31,				
(Dollars in Thousands)	2007	2006	2005	2004	2003	2002
Backlog of orders - Beginning	$ 5,932	6,918	5,514	4,052	4,834	7,666
Add: orders	14,424	16,802	18,080	13,164	11,301	12,074
Less: sales	9,626	17,788	16,676	11,702	12,083	14,906
Backlog of orders - Ending	$ 10,730	5,932	6,918	5,514	4,052	4,834
Capacity Utilization[1]	81.4%	81.7%	80.2%	78.1%	76.1%	74.8%

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

Current Ratio

Management of the Company monitors the current ratio as a measure of determining liquidity and believes the current ratio illustrates that the Company's financial resources are adequate to satisfy its future cash requirements through the next year. The following table depicts the Company's current assets, current liabilities, and current ratio as of June 30, 2007 and as of December 31, 2006, 2005, 2004, 2003, and 2002:

(Dollars in Thousands)	As of June 30, 2007	As of December 31, 2006	2005	2004	2003	2002
Current assets	$ 18,113	16,370	22,134	14,249	14,720	15,444
Current liabilities	$ 6,281	4,296	5,337	7,355	9,583	9,416
Current ratio......................	2.88	3.81	4.15	1.94	1.54	1.64

Debt to Equity Ratio

With an emphasis on generating cash flows to eliminate the Company's senior and subordinated debt, the Company eliminated its financial leverage in 2003 as evidenced by its debt to equity ratio, which is the ratio of total debt to stockholders' equity. Management believes the absence of debt provides greater protection for its stockholders and enhances the Company's ability to obtain additional financing, if required. The following table illustrates the calculation of the debt to equity ratio as of June 30, 2007 and as of December 31, 2006, 2005, 2004, 2003, and 2002 and also includes the number of shares outstanding at the end of each fiscal period:

(Dollars in Thousands)	As of June 30, 2007	As of December 31, 2006	2005	2004	2003	2002
Current installments of long-term debt....................	$ -	-	-	-	-	1,437
Long-term debt	-	-	-	-	-	7,263
Total debt.............................	-	-	-	-	-	8,700
Total stockholders' equity (1)............................	$ 11,644	12,428	17,066	23,308	22,061	17,885
Debt to equity ratio	-	-	-	-	-	.49
Number of shares outstanding at the end of the fiscal period................................	2,769,192	2,873,891	3,539,019	4,265,310	4,277,595	4,256,098

(1) During the six months ended June 30, 2007, the Company repurchased 99,699 shares of common stock at a weighted average cost, including brokerage commissions, of $5.68 per share. Cash expenditures for the stock repurchases during the six months ended June 30, 2007 were $566,732.

During the year ended December 31, 2006, the Company repurchased 679,219 shares of common stock at a weighted average cost, including brokerage commissions, of $7.57 per share. Cash expenditures for the stock repurchases during the year ended December 31, 2006 were $5,142,898.

During the year ended December 31, 2005, the Company repurchased 824,100 shares of common stock at a weighted average cost, including brokerage commissions, of $9.81 per share. Cash expenditures for the stock repurchases during the year ended December 31, 2005 were $8,080,882.

Debt to Equity Ratio *(Continued)*
During the year ended December 31, 2004, the Company repurchased 34,700 shares of common stock at a weighted average cost, including brokerage commissions, of $9.38 per share. Cash expenditures for the stock repurchases during the year ended December 31, 2004 were $325,631.

See Stock Repurchase Program in Note 8 of the Notes to Financial Statements regarding the repurchase of shares of the Company's common stock.

Critical Accounting Policies and Estimates

The discussion and analysis of the Company's financial condition and results of operations are based upon the Company's financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amount of assets and liabilities, revenues and expenses, and other financial information, including the related disclosure of commitments and contingencies at the date of the Company's financial statements. Actual results may, under different assumptions and conditions, differ significantly from the Company's estimates.

The Company believes that its accounting policies related to revenue recognition on system sales, warranty, and inventories are its "critical accounting policies." These policies have been reviewed with the Audit Committee of the Board of Directors and are discussed in greater detail below.

Revenue Recognition on Systems Sales

Revenues on systems contracts, accounted for in accordance with SOP 81-1 of the American Institute of Certified Public Accountants, are recorded on the basis of the Company's estimates of the percentage of completion of individual contracts. Gross margin is recognized on the basis of the ratio of aggregate costs incurred to date to the most recent estimate of total costs. As contracts may extend over one or more years, revisions in cost and profit estimates during the course of the work are reflected in the accounting periods in which the facts requiring revisions become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued. As of June 30, 2007, there are no contracts that are anticipated to result in a loss.

The Company believes that it has the ability to reasonably estimate the total costs and applicable gross profit margins at the inception of the contract for all of its systems contracts. However, where cost estimates change, there could be a significant impact on the amount of revenue recognized. The Company's failure to estimate accurately can result in cost overruns which will result in the loss of profits if the Company determines that it has significantly underestimated the costs involved in completing contracts. The Company has not had any significant cost overruns resulting in loss of profits during the six months ended June 30, 2007.

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 two percent of the cost of the system being sold, and a detailed review of products still in the warranty period. Historically, the level of warranty reserve has been appropriate based on management's assessment of estimated future warranty claims. However, if unanticipated warranty issues arise in the future, there could be a significant impact on the recorded warranty reserve. The warranty reserve as of June 30, 2007 was $190,000.

Inventories

Inventories are valued at the lower of average cost or market. The Company provides an inventory reserve determined by a specific identification of individual slow moving items and other inventory items based on historical experience. The reserve is considered to be a write-down of inventory to a new cost basis. Upon disposal of inventory, the new cost basis is removed from the accounts.

(a) Results of Operations – Six Months Ended June 30, 2007 Compared to the Six Months Ended June 30, 2006

Earnings Summary

The Company had a net loss of $257,000 (or $0.09 basic loss per share) for the six months ended June 30, 2007, compared to net income of $172,000 (or $0.05 basic earnings per share) for the six months ended June 30, 2006. The decrease in net income was primarily due to:

- a decrease during the first half of 2007 in gross profit of $390,000 as described below;
- an increase in selling, general and administrative expenses of $139,000 as described below;
- a decrease of $47,000 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
- a decrease of $57,000 in other income, net attributable to a decrease in royalty income from a license agreement related to material handling equipment sales.

Partially offsetting the above decrease in net income was a decrease in product development costs of $148,000 as described below.

Net Sales and Gross Profit on Sales

	2007	2006
Net sales	$ 9,626,000	9,043,000
Cost of sales	7,221,000	6,248,000
Gross profit on sales	$ 2,405,000	2,795,000
Gross profit as a percentage of sales	25.0%	30.9%

The increase in sales was associated with a larger amount of orders received during the first half of 2007 when compared to the amount of orders received during the first half of 2006. Contributing to the increase in sales was progress made on contracts received during the first half of 2007 in accordance with contract completion requirements.

Gross profit, as a percentage of sales, for the six months ended June 30, 2007, when compared to the six months ended June 30, 2006, was unfavorably impacted by 2.4% due to product mix and by 3.5% due to the reduced absorption of overhead costs.

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

(a) Results of Operations – Six Months Ended June 30, 2007 Compared to the Six Months Ended June 30, 2006 *(Continued)*

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $2,940,000 were higher by $139,000 for the six months ended June 30, 2007 than for the six months ended June 30, 2006. The increase was attributable to the addition of resources aimed at expanding the customer base and costs associated with sales efforts in response to quoting and sales activities totaling $257,000, and an increase of $21,000 in professional fees and consulting services. Partially offsetting the aforementioned unfavorable variance was a decrease of $128,000 in marketing expenses primarily associated with product promotion and trade shows.

Product Development Costs

Product development costs, including patent expense, of $68,000 were lower by $148,000 for the six months ended June 30, 2007 than for the six months ended June 30, 2006. Development programs in the six months ended June 30, 2007 were primarily aimed at improvements to the Company's Order Fulfillment systems technologies. Order Fulfillment development efforts during the six months ended June 30, 2007 included voice-directed replenishment and DISPEN-SI-MATIC® software enhancements aimed at promoting workplace efficiencies for the Company's customers.

Development programs in the six months ended June 30, 2006 were primarily aimed at improvements to the Company's Order Fulfillment and Production & Assembly systems technologies. Development efforts during the six months ended June 30, 2006 included DISPEN-SI-MATIC® hardware and software enhancements aimed at promoting workplace efficiencies for the Company's customers and LO-TOW® product enhancements.

Interest Income

Interest income of $229,000 was lower by $47,000 for the six months ended June 30, 2007 than for the six months ended June 30, 2006. 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.

Other Income, Net

The unfavorable variance of $57,000 in other income, net for the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 was primarily attributable to a decrease in royalty income from a license agreement related to material handling equipment sales.

Income Tax Expense (Benefit)

The Company recognized an income tax benefit of $98,000 during the six months ended June 30, 2007 compared to an income tax benefit of $43,000 during the six months ended June 30, 2006. The income tax benefit for the six months ended June 30, 2007 was lower than statutory federal and state tax rates primarily due to the effect of tax-exempt interest on certain investments on the annualized effective rate. The income tax benefit for the six months ended June 30, 2006 was higher than statutory federal and state tax rates primarily due to the reversal of accruals for the expiration of tax return statutes and the effect of tax-exempt interest on certain investments on the annualized effective rate.

(b) Results of Operations – Three Months Ended June 30, 2007 Compared to the Three Months Ended June 30, 2006

Earnings Summary

The Company had net income of $11,000 (or $0.00 basic earnings per share) for the three months ended June 30, 2007, compared to net income of $171,000 (or $0.05 basic earnings per share) for the three months ended June 30, 2006. The decrease in net income was primarily due to:

- a decrease during the second quarter of 2007 in gross profit of $33,000 as described below;
- an increase in selling, general and administrative expenses of $107,000 as described below;
- a decrease of $31,000 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
- a decrease of $44,000 in other income, net attributable to a decrease in royalty income from a license agreement related to material handling equipment sales.

Partially offsetting the above decrease in net income was a decrease in product development costs of $42,000 as described below.

Net Sales and Gross Profit on Sales

	2007	2006
Net sales	$ 6,019,000	4,823,000
Cost of sales	4,544,000	3,315,000
Gross profit on sales	$ 1,475,000	1,508,000
Gross profit as a percentage of sales	24.5%	31.3%

The increase in sales was associated with a larger amount of orders received during the first half of 2007 when compared to the amount of orders received during the first half of 2006. Contributing to the increase in sales was progress made on contracts received during the first half of 2007 in accordance with contract completion requirements.

Gross profit, as a percentage of sales, for the three months ended June 30, 2007, when compared to the three months ended June 30, 2006, was unfavorably impacted by 4.0% due to product mix and by 2.8% due to the reduced absorption of overhead costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses of $1,536,000 were higher by $107,000 for the three months ended June 30, 2007 than for the three months ended June 30, 2006. The increase was attributable to the addition of resources aimed at expanding the customer base and costs associated with sales efforts in response to quoting and sales activities totaling $124,000, and an increase of $39,000 in professional fees and consulting services. Partially offsetting the aforementioned unfavorable variance was a decrease of $66,000 in marketing expenses primarily associated with product promotion and trade shows.

(b) Results of Operations – Three Months Ended June 30, 2007 Compared to the Three Months Ended June 30, 2006 *(Continued)*

Product Development Costs

Product development costs, including patent expense, of $18,000 were lower by $42,000 for the three months ended June 30, 2007 than for the three months ended June 30, 2006. Development programs in the three months ended June 30, 2007 were primarily aimed at improvements to the Company's Order Fulfillment systems technologies. Order Fulfillment development efforts during the three months ended June 30, 2007 included voice-directed replenishment enhancements.

Development programs in the three months ended June 30, 2006 were primarily aimed at improvements to the Company's Order Fulfillment and Production & Assembly systems technologies. Development efforts during the three months ended June 30, 2006 included DISPEN-SI-MATIC® software enhancements aimed at promoting workplace efficiencies for the Company's customers and LO-TOW® product enhancements.

Interest Income

Interest income of $117,000 was lower by $31,000 for the three months ended June 30, 2007 than for the three months ended June 30, 2006. 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.

Other Income, Net

The unfavorable variance of $44,000 in other income, net for the three months ended June 30, 2007 as compared to the three months ended June 30, 2006 was primarily attributable to a decrease in royalty income from a license agreement related to material handling equipment sales.

Income Tax Expense (Benefit)

The Company recognized income tax expense of $30,000 during the three months ended June 30, 2007 compared to income tax expense of $43,000 during the three months ended June 30, 2006. Income tax expense for the three months ended June 30, 2007 was higher than statutory federal and state tax rates primarily due to an adjustment in the effective income tax rate expected to apply based on the projected profitability of the Company for 2007. Income tax expense for the three months ended June 30, 2006 was lower than statutory federal and state tax rates primarily due to the effect of tax-exempt interest on certain investments on the annualized effective rate.

Liquidity and Capital Resources

The Company's cash and cash equivalents and short-term investments at June 30, 2007 were $11,551,000, representing 62.4% of total assets, down from $12,072,000, or 72.1% of total assets, at December 31, 2006. The decrease was primarily due to the repurchase and retirement of common stock totaling $567,000.

The Company's cash and cash equivalents and short-term investments at June 30, 2006 were $15,804,000, representing 76.2% of total assets, down from $17,397,000, or 77.0% of total assets, at December 31, 2005. The decrease was primarily due to the repurchase and retirement of common stock of $1,861,000, partially offset by cash provided by operating activities totaling $365,000.

Cash provided by operating activities totaling $365,000 during the six months ended June 30, 2006 was primarily due to a decrease in receivables in the amount of $393,000, primarily associated with the collection of an income tax refund.

Liquidity and Capital Resources *(Continued)*

The Company has a line of credit facility which may not exceed $5,000,000 and is to be used primarily for working capital purposes. Interest on the line of credit facility is at the LIBOR Market Index Rate plus 1.4%. As of June 30, 2007, 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 June 30, 2007, the amount of available line of credit was $4,800,000.

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 June 30, 2007. The line of credit facility expires effective June 30, 2008.

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

The Company is currently exploring various business strategies designed to enhance the value of the Company's assets for its stockholders. The Company is continuing to evaluate and actively explore a range of possible options, including transactions intended to provide liquidity and maximize stockholder value, and consideration of the acquisition of complementary assets and/or businesses. The Company may not be able to effect any of these strategic options.

Contractual Obligations

The Company's leases 25,000 square feet in Easton, Pennsylvania for use as its principal office. The leasing agreement requires fixed monthly rentals of $19,345 (with annual increases of 3%). The terms of the lease also require the payment of a proportionate share of the facility's operating expenses. The leasing agreement is secured with a $200,000 letter of credit. The lease expires on February 21, 2008.

Future contractual obligations and commercial commitments at June 30, 2007 as noted above are as follows:

		Payments Due by Period					
	Total	2007	2008	2009	2010	2011	After 2011
Contractual obligations:							
Operating leases....	$ 155,000	116,000	39,000	-	-	-	-
Unrecognized tax benefits	576,000	329,000	32,000	95,000	120,000	-	-
Total	$ 731,000	445,000	71,000	95,000	120,000	-	-

		Amount of Commitment Expiration Per Period					
	Total Amounts Committed	2007	2008	2009	2010	2011	After 2011
Other commercial commitments:							
Letters of credit	$ 200,000	-	200,000	-	-	-	-

Contractual Obligations *(Continued)*

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. Under the Severance Policy, executive officers will receive a portion of their regular straight-time pay based on their position and length of service with the Company, medical coverage, and executive outplacement services. For further information, please refer to the Company's disclosure regarding the "Executive Officer Severance Policy" in Item 11 of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Off-Balance Sheet Arrangements

As of June 30, 2007 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.

Related Party Transactions

From time to time, the Company enters into transactions with related parties. For further information, please refer to the Company's disclosure regarding "Commitments and Related Party Transactions" in Note 9 of the Notes to Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Recently Issued Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48 ("FIN 48"), Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109, Accounting for Income Taxes, which clarifies the accounting for uncertainty in income taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation requires that the Company recognize in the financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosure. The Company adopted the provisions of FIN 48 on January 1, 2007 as described in Note 11 of the Notes to Financial Statements.

In September 2006, the Financial Accounting Standards Board issued SFAS No. 157, Fair Value Measurements ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a market-based framework or hierarchy for measuring fair value, and expands disclosures about fair value measurements. SFAS No. 157 is applicable whenever another accounting pronouncement requires or permits assets and liabilities to be measured at fair value. SFAS No. 157 does not expand or require any new fair value measures. The provisions of SFAS No. 157 are to be applied prospectively and are effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on the Company's financial statements.

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

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Company's management, including its Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, of the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act") as of June 30, 2007. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act, is accumulated and communicated to the Company's management, including the Company's CEO and CFO, to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported as specified in Securities and Exchange Commission rules and forms.

(b) Change in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of such controls that occurred during the Company's fiscal quarter ended June 30, 2007 that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

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.

Item 1A. Risk Factors

Item 1A, “Risk Factors,” of our 2006 Form 10-K includes a detailed discussion of our risk factors. There have been no material changes in our Risk Factors from those disclosed in our annual report on Form 10-K for the year and December 31, 2006.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table represents the periodic repurchases of equity securities made by the Company during the three months ended June 30, 2007:

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
4/01/07 – 4/30/07	43,849	$ 5.69	43,849	$ 249,555	$ 883,857
5/01/07 – 5/31/07	-	$ -	-	$ -	$ 883,857
6/01/07 – 6/30/07	-	$ -	-	$ -	$ 883,857
	43,849	$ 5.69	43,849	$ 249,555	

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 and 2006 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 $14,000,000.

On January 7, 2007, 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 $14,000,000 of the Company’s common stock to up to $15,000,000.

During the three months ended June 30, 2007, the Company repurchased 43,849 shares of common stock at a weighted average cost, including brokerage commissions, of $5.69 per share. During the six months ended June 30, 2007, the Company repurchased 99,699 shares of common stock at a weighted average cost, including brokerage commissions, of $5.68 per share. Cash expenditures for the stock repurchases during the three and six months ended June 30, 2007 were $249,555 and $566,732, respectively. Through June 30, 2007, the Company repurchased 1,637,718 shares of common stock at a weighted average cost, including brokerage commissions, of $8.62 per share. Cash expenditures for the stock repurchases since the inception of the program were $14,116,143. As of June 30, 2007, $883,857 remained available for repurchases under the stock repurchase program.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds *(Continued)*

Based on market conditions and other factors, additional repurchases may be made from time to time, in compliance with SEC regulations, 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 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 between 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.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibit No.	Description
10.41	Renewal Agreement for the Promissory Note related to the Line of Credit entered into June 20, 2007 by and between Paragon Technologies, Inc. and Wachovia Bank, National Association (filed herewith).
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by Leonard S. Yurkovic, Acting CEO (filed herewith).
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by Ronald J. Semanick, Chief Financial Officer and Vice President - Finance and Treasurer (filed herewith).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Leonard S. Yurkovic, Acting CEO (filed herewith).
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Ronald J. Semanick, Chief Financial Officer and Vice President - Finance and Treasurer (filed herewith).

SIGNATURES

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

PARAGON TECHNOLOGIES, INC.

/s/ Leonard S. Yurkovic
Leonard S. Yurkovic
Acting CEO

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

Dated: August 10, 2007

EXHIBIT INDEX

Exhibit No.	Description
10.41	Renewal Agreement for the Promissory Note related to the Line of Credit entered into June 20, 2007 by and between Paragon Technologies, Inc. and Wachovia Bank, National Association (filed herewith).
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by Leonard S. Yurkovic, Acting CEO (filed herewith).
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 signed by Ronald J. Semanick, Chief Financial Officer and Vice President - Finance and Treasurer (filed herewith).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Leonard S. Yurkovic, Acting CEO (filed herewith).
32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 signed by Ronald J. Semanick, Chief Financial Officer and Vice President - Finance and Treasurer (filed herewith).

<u>Exhibit 31.1</u>

SECTION 302 CERTIFICATION

I, Leonard S. Yurkovic, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

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

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

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

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2007
/s/ Leonard S. Yurkovic
Leonard S. Yurkovic
Acting CEO

Exhibit 31.2

SECTION 302 CERTIFICATION

I, Ronald J. Semanick, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 10, 2007
/s/ Ronald J. Semanick
Ronald J. Semanick
Chief Financial Officer, and
Vice President - Finance and Treasurer

Exhibit 32.1

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

In connection with the Quarterly Report of Paragon Technologies, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leonard S. Yurkovic, Acting CEO of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Leonard S. Yurkovic
Leonard S. Yurkovic
Acting Chief Executive Officer
August 10, 2007

Exhibit 32.2

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

In connection with the Quarterly Report of Paragon Technologies, Inc. (the “Company”) on Form 10-Q for the period ended June 30, 2007 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ronald J. Semanick, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Ronald J. Semanick
Ronald J. Semanick
Chief Financial Officer and Vice President - Finance
and Treasurer
August 10, 2007