UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For The Quarterly Period Ended June 30, 2001

Commission File No. 1-15729

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

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

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

Number of shares of common stock, par value $1.00 per share, outstanding as of August 8, 2001: 4,211,709.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Paragon Technologies, Inc. and Subsidiary
Consolidated Balance Sheets
June 30, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	(UNAUDITED) June 30, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents, principally time deposits	$ 4,203	7,925
Receivables:		
Trade (net of allowance for doubtful accounts of $84 as of June 30, 2001 and $54 as of December 31, 2000)	7,739	7,040
Notes and other receivables	1,163	301
Total receivables	8,902	7,341
Costs and estimated earnings in excess of billings	1,544	1,665
Inventories:		
Raw materials	1,820	2,198
Work-in-process	648	340
Finished goods	301	508
Total inventories	2,769	3,046
Deferred income tax benefits	2,326	2,326
Prepaid expenses and other current assets	451	547
Total current assets	20,195	22,850

Property, plant and equipment, at cost:		
Land	27	27
Buildings and improvements	3,746	3,746
Machinery and equipment	6,534	6,341
	10,307	10,114
Less: accumulated depreciation	(7,677)	(7,334)
Net property, plant and equipment	2,630	2,780
Investments in joint ventures	2,225	2,000
Excess of cost over fair value of net assets acquired, less amortization of $818 as of June 30, 2001 and $585 as of December 31, 2000	17,892	18,125
Other assets, at cost less accumulated amortization of $74 as of June 30, 2001 and $210 as of December 31, 2000	141	162
Total assets	$ 43,083	45,917

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Balance Sheets
June 30, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	(UNAUDITED) June 30, 2001	December 31, 2000
Liabilities and Stockholders' Equity		
Current liabilities:		
Current installments of long-term debt	$ 2,042	1,521
Accounts payable	3,835	4,412
Customers' deposits and billings in excess of costs and estimated earnings for completed and uncompleted contracts	3,907	4,446
Accrued salaries, wages, and commissions	1,050	2,130
Income taxes payable	--	369
Accrued royalties payable	81	253
Accrued product warranties	813	857

Accrued pension and retirement savings plan liabilities	1,180	688
Accrued restructuring expenses	976	--
Accrued other liabilities	715	517
Total current liabilities	14,599	15,193
Long-term liabilities:		
Long-term debt, excluding current installments:		
Term loan	8,050	9,775
Subordinated notes payable	3,000	3,000
Other	254	5
Total long-term debt	11,304	12,780
Deferred income taxes payable	730	823
Deferred compensation	157	141
Total long-term liabilities	12,191	13,744
Stockholders' equity:		
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding 4,211,709 shares as of June 30, 2001 and 4,194,869 shares as of December 31, 2000	4,212	4,195
Additional paid-in capital	7,006	6,882
Retained earnings	5,221	5,903
Accumulated other comprehensive loss	(146)	--
Total stockholders' equity	16,293	16,980
Total liabilities and stockholders' equity	$ 43,083	45,917

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Statements of Operations (Unaudited)
For the Six Months Ended June 30, 2001 and June 30, 2000
(In Thousands, Except Share And Per Share Data)

	Three Months Ended	Six Months Ended

	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net sales	$ 12,221	16,689	26,151	35,033
Cost of sales	9,158	12,173	19,495	26,085
Gross profit on sales	3,063	4,516	6,656	8,948
Selling, general and administrative expenses	2,745	2,868	5,686	5,258
Product development costs	117	60	316	109
Amortization of goodwill	117	117	234	233
Restructuring expenses	1,538	-	1,538	337
Interest expense	327	416	691	837
Interest income	(66)	(75)	(180)	(136)
Equity in income of joint ventures	(196)	(48)	(225)	(72)
Other income, net	(113)	(123)	(202)	(208)
	4,469	3,215	7,858	6,358
Earnings (loss) before income taxes	(1,406)	1,301	(1,202)	2,590
Income tax expense (benefit)	(598)	516	(520)	1,033
Net earnings (loss)	$ (808)	785	(682)	1,557
Basic earnings (loss) per share	$ (.19)	.19	(.16)	.37
Diluted earnings (loss) per share	$ (.19)	.19	(.16)	.36
Weighted average shares outstanding	4,211,522	4,184,878	4,204,385	4,184,878
Dilutive effect of stock options	14,328	819	32,750	1,430
Dilutive effect of phantom stock units	19,728	12,544	18,928	15,874
Weighted average shares outstanding assuming dilution	4,245,578	4,198,241	4,256,063	4,202,182

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income (Unaudited)
For the Six Months Ended June 30, 2001 and June 30, 2000
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net earnings (loss)	$ (808)	785	(682)	1,557
Other comprehensive income (loss), net of tax:				
Cash flow hedge:				
Cumulative effect of adoption of FAS 133	-	-	(96)	-
Change in fair value during the period	17	-	(50)	-
Total other comprehensive income (loss)	17	-	(146)	-
Comprehensive income (loss)	$ (791)	785	(828)	1,557

See accompanying notes to consolidated financial statements.

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Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended June 30, 2001 and June 30, 2000
(In Thousands, Except Share Data)

	Six Months Ended	
	June 30, 2001	June 30, 2000

Cash flows from operating activities:		
Net earnings (loss)	$ (682)	1,557
Adjustments to reconcile net earnings (loss) to net cash provided (used) by operating activities:		
Depreciation of plant and equipment	343	301
Amortization of intangibles	254	266
Gain on disposition of equipment	-	(2)
Equity in income of joint ventures	(225)	(72)
Issuance of 12,390 common shares as payment of employee's bonus	111	-
Change in operating assets and liabilities:		
Receivables	(1,561)	(1,645)
Costs and estimated earnings in excess of billings	121	1,071
Inventories	277	721
Prepaid expenses and other current assets	96	364
Other noncurrent assets	-	1
Accounts payable	(577)	(394)
Customers' deposits and billings in excess of costs and estimated earnings for completed and uncompleted contracts	(539)	(256)
Accrued salaries, wages, and commissions	(1,080)	196
Income taxes payable	(369)	554
Accrued royalties payable	(172)	(125)
Accrued pension and retirement savings plan liabilities	492	62
Accrued product warranties	(44)	(1)
Accrued restructuring expenses	976	-
Accrued other liabilities	198	(563)
Deferred income taxes payable	10	-
Deferred compensation	16	(114)
Net cash provided (used) by operating activities	(2,355)	1,921
Cash flows from investing activities:		
Proceeds from the disposition of equipment	-	2
Additional consideration paid in connection with Ermanco acquisition	-	(231)
Additions to property, plant and equipment	(193)	(218)
Net cash used by investing activities	(193)	(447)

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Consolidated Statements of Cash Flows (Unaudited) (Continued)
For the Six Months Ended June 30, 2001 and June 30, 2000
(In Thousands, Except Share Data)

	Six Months Ended	
	June 30, 2001	June 30, 2000
Cash flows from financing activities:		
Sale of common shares in connection with employee incentive stock option plan	30	-
Repayment of long-term debt	(1,204)	(947)
Net cash used by financing activities	(1,174)	(947)
Increase (decrease) in cash and cash equivalents	(3,722)	527
Cash and cash equivalents, beginning of period	7,925	6,242
Cash and cash equivalents, end of period	$ 4,203	6,769
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 643	1,095
Income taxes	$ 464	307

See accompanying notes to consolidated financial statements.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements
Six Months Ended June 30, 2001 and June 30, 2000

(1) The information contained in this Form 10-Q report is unaudited. In the opinion of management, the interim financial statements furnished reflect all adjustments and accruals that are necessary to a fair statement of

results for the interim periods presented. The financial statements include the accounts of the Company and Ermanco Incorporated ("Ermanco"), a wholly owned subsidiary company, after elimination of intercompany balances and transactions. Results for interim periods are not necessarily indicative of results expected for the fiscal year. Refer to the Company's Form 10-K, as amended for the year ended December 31, 2000 for more complete financial information.

On February 9, 2000, the Board of Directors of the Company approved an amendment to Article 1 of the Company's Articles of Incorporation to change the name of the Company from SI Handling Systems, Inc. to Paragon Technologies, Inc. ("Paragon" or the "Company"). Paragon consists of two separate brands: SI Systems (formerly referred to as "SI Easton") and Ermanco Incorporated ("Ermanco"). This amendment became effective on April 5, 2000.

On March 9, 2000, the Company's common stock began trading on the American Stock Exchange (AMEX) under the symbol "PTG." Prior to this date, the Company's common stock was traded on The Nasdaq Stock Market under the symbol "SIHS."

(2) SI/BAKER, INC.

Paragon Technologies, Inc., and McKesson Automation Inc. ("McKesson Automation"), formerly known as McKesson Automated Prescription Systems, Inc., are co-venturers in a joint venture named SI/BAKER, INC. ("SI/BAKER" or the "joint venture"). The SI/BAKER joint venture draws upon the automated materials handling systems experience of Paragon Technologies, Inc. and the automated pill counting and dispensing products of McKesson Automation to provide automated pharmacy systems. Each member company contributed $100,000 in capital to fund the joint venture.

The joint venture designs and installs computer controlled, fully automated, integrated systems for managed care and central fill pharmacy operations. The joint venture's systems are viewed as labor saving devices, which address the issues of improved productivity and cost reduction. Systems can be expanded as customers' operations grow and they may be integrated with a wide variety of components to meet specific customer needs.

Schedule A contains the SI/BAKER, INC. financial statements. The information contained in the SI/BAKER, INC. financial statements is unaudited. In the opinion of management, the interim financial statements furnished reflect all adjustments and accruals that are necessary to a fair statement of results for the interim periods presented.

(3) Ermanco Incorporated

On September 30, 1999, the Company completed the acquisition of all of the outstanding common stock of Ermanco, which now operates as a wholly-owned subsidiary of the Company. Ermanco, headquartered in Spring Lake, Michigan, designs and installs complete conveying systems for a variety of manufacturing and warehousing applications. Under the terms of the Stock Purchase Agreement, the Company acquired all of the outstanding common stock of Ermanco for a purchase price of $22,801,000 consisting of $15,301,000 in cash, $3,000,000 in promissory notes payable to fourteen stockholders of Ermanco, and 481,284 shares of the Company's common stock with a value of $4,500,000 based on the average closing price of $9.35 of the Company's common stock for the five trading days immediately preceding the date of the Stock Purchase Agreement, August 6, 1999. The Company financed $14,000,000 of the acquisition through term debt. The acquisition required a net cash outlay of $2,264,000.

The acquisition was accounted for as a purchase in accordance with APB No. 16 and, accordingly, the acquired assets and assumed liabilities have been recorded at their estimated fair value at the date of acquisition. The amount of excess of cost over fair value of net assets acquired associated with the acquisition was $18,710,000 and is being amortized over a period of 40 years.

(4) Restructuring

On June 25, 2001, the Company announced a restructuring to its business operations aimed at maximizing revenues, increasing operational efficiencies, and minimizing costs. The Company's marketing and sales operation will be consolidated to go to market as one Company with a multiple brand, multiple channel strategy. In conjunction with the restructuring plan, the Company reduced the number of office associates by fourteen and will discontinue production operations at its Easton, Pennsylvania facility. All production employees working in the Easton, Pennsylvania manufacturing plant will be laid off. Layoffs are expected to begin on August 31, 2001, and will be completed on or before November 30, 2001. The Company currently employs approximately 20 production employees, with an additional 27 individuals on an extended layoff.

In the second quarter of 2001, the Company recorded a charge of $1,538,000 for restructuring costs. The restructuring charge included costs of $678,000 for severance and other personnel costs, $562,000 for pension expense associated with the curtailment of the Company's defined benefit plan for the Easton, Pennsylvania production employees, and $298,000 for plant closure, and legal and professional service fees expected to be incurred relating to the restructuring. The restructuring charges were determined based on formal plans approved by the Company's management and the Board of Directors using the information available at the time. Management of the Company believes this provision will be adequate to cover any future costs incurred relating to the restructuring.

As of June 30, 2001, $1,538,000 remained in the restructuring accrual. Through the second quarter of 2001, there have been no payments made against the restructuring accrual.

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements
Six Months Ended June 30, 2001 and June 30, 2000

The major components of the restructuring charge and remaining accruals is as follows:

	Provision	Amounts Applied	Balance at June 30, 2001
Severances	$ 678,000	-	678,000
Pension curtailment	562,000	-	562,000
Other	298,000	-	298,000
	$ 1,538,000	-	1,538,000

(5) Major Segments of Business

Operating segments are defined as components of an enterprise in which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. On June 25, 2001, the Company announced a restructuring to its business operations aimed at maximizing revenues, increasing operational efficiencies, and minimizing costs. The Company's marketing and sales operation will be consolidated to go to market as one Company with a multiple brand, multiple channel strategy.

The Company's Easton, Pennsylvania operations (hereafter referred to as "SI Systems") is a systems integrator supplying SI Systems' branded automated materials handling systems to manufacturing, order selection, and distribution operations. The systems are designed, sold, manufactured, installed, and serviced by its own staff or by others for SI Systems, at its direction, generally as labor-saving devices to improve productivity and reduce costs. SI Systems' branded products are utilized to automate the movement or selection of products and are often integrated with other automated equipment, such as conveyors and robots. SI Systems' branded integrated materials handling solutions involve both standard and specially designed components and include integration of non-proprietary automated handling technologies so as to provide solutions for its customers' unique materials handling needs. SI Systems' staff develops and designs computer control programs required for the efficient operation of the systems. SI Systems' branded products are sold to customers located in North America, including the U.S. government.

The Company's Spring Lake, Michigan operations (hereafter referred to as "Ermanco") is a manufacturer of light to medium duty unit handling conveyor products, serving the materials handling industry through local independent distributors in North America. Ermanco also provides complete conveyor systems for a variety of applications, including distribution, and manufacture of computers and electronic products, utilizing primarily its own manufactured conveyor products, engineering services by its own staff or subcontracted, and subcontracted installation services. The systems product line of the Ermanco brand accounts for approximately 55% of Ermanco's total revenues, and the balance is from resale to distributors who have non-exclusive agreements with the Company.

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

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements
Six Months Ended June 30, 2001 and June 30, 2000

The Company's business is dependent upon a limited number of large contracts with certain customers. This dependence can cause unexpected fluctuations in sales volume. Along with sales recognized on the percentage of completion accounting method, the monthly rate of new orders can also vary substantially, causing fluctuations in the current backlog of orders and future revenue recognition. 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 identifies operating segments based on management responsibility and types of products offered for sale as follows:

For the Six Months Ended June 30, 2001 (In Thousands):	Automated Materials Handling Systems	Conveyor Systems	Total
Sales	$ 10,795	15,356	26,151
Earnings before interest expense, interest income, equity in income of joint ventures, and income taxes (before restructuring expenses)	183	440	623
Restructuring expenses	1,538	-	1,538
Total assets	12,366	30,717	43,083
Capital expenditures	64	129	193
Depreciation and amortization expense	207	390	597

For the Six Months Ended	Automated Materials	Conveyor

June 30, 2000 (In Thousands):	Handling Systems	Systems	Total
Sales	$ 15,221	19,812	35,033
Earnings before interest expense, interest income, equity in income of joint ventures, and income taxes (before restructuring expenses)	1,380	2,176	3,556
Restructuring expenses	337	-	337
Total assets	15,843	29,301	45,144
Capital expenditures	77	141	218
Depreciation and amortization expense	202	365	567

Geographic segment information was as follows (in thousands):

For the Six Months Ended June 30, 2001 (In Thousands):	Domestic	Europe and Asia	Canada	Total
Sales	$ 23,839	2,042	270	26,151
Earnings before interest expense, interest income, equity in income of joint ventures, and income taxes (before restructuring expenses)	623	-	-	623
Restructuring expenses	1,538	-	-	1,538
Total assets	43,083	-	-	43,083
Capital expenditures	193	-	-	193
Depreciation and amortization expense	597	-	-	597

Item 1. Financial Statements (Continued)

Paragon Technologies, Inc. and Subsidiary
Notes To Consolidated Financial Statements
Six Months Ended June 30, 2001 and June 30, 2000

Intersegment sales for the six months ended June 30, 2001 totaled $0.

Geographic segment information was as follows (in thousands):

For the Six Months Ended June 30, 2000 (In Thousands):	Domestic	Europe and Asia	Canada	Total
Sales	$ 32,587	1,951	495	35,033
Earnings before interest expense, interest income,				

equity in income of joint ventures, and income taxes (before restructuring expenses)	3,556	-	-	3,556
Restructuring expenses	337	-	-	337
Total assets	45,144	-	-	45,144
Capital expenditures	218	-	-	218
Depreciation and amortization expense	567	-	-	567

Intersegment sales for the six months ended June 30, 2000 totaled $88,000.

(6) New Accounting Pronouncements

Effective January 1, 2001, the Company adopted Financial Accounting Standard No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended (FAS 133). This standard requires that all derivative instruments be reported on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. The net cumulative effect of adopting FAS 133 as of January 1, 2001 was approximately a $96,000 loss to accumulated other comprehensive loss.

The Company is exposed to market risk from changes in interest rates, and uses an interest rate swap to hedge this risk. The seven-year interest rate swap has a notional amount of $7,000,000 and is classified as a cash flow hedge of forecasted variable rate interest payments on a portion of the Company's term loan. Gains and losses on the interest rate swap are deferred in other comprehensive income. The fair value of the interest rate swap at June 30, 2001 was a liability of approximately $249,000.

The Company uses derivative financial instruments as risk management tools and not for speculative purposes.

In July 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets." This statement replaces the requirement to amortize intangible assets with indefinite lives and goodwill with a requirement for an impairment test. The statement requires an evaluation of intangible assets and their useful lives and a transitional impairment test for goodwill and certain intangible assets. After transition, the impairment tests will be performed annually. The statement will be adopted beginning 2002. Because of the effort needed to comply with adopting Statement 142, it is not practicable to reasonably estimate the impact of adopting this Statement on the Company's financial statements at this time.

(7) Other Comprehensive Loss
The separate components of other comprehensive loss are as follows (in

thousands):

	Gross	Tax Effect	Net
Cumulative impact of adoption of FAS 133	$ 165	69	96
Other comprehensive loss	84	34	50
Accumulated other comprehensive loss at June 30, 2001	$ 249	103	146

(8) Long-Term Debt

As of June 30, 2001, the Company was in violation of the covenants related to its Funds Flow Coverage Ratio and its subordination agreement. Effective June 30, 2001, the Company received a waiver of certain loan covenants and is prohibited from making any cash payments of subordinated debt and interest until the Company is in full compliance with all the financial covenants as originally set forth in the Loan Agreement with the Company's principal bank.

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

Liquidity and Capital Resources

The Company's cash and cash equivalents decreased to $4,203,000 at June 30, 2001 from $7,925,000 at December 31, 2000. The decrease resulted from cash used by operating activities totaling $2,355,000, primarily related to payments associated with the Company's calendar year 2000 profit-based incentive plans and interest on acquisition financing, the repayment of long-term debt of $1,204,000, and purchases of capital equipment totaling $193,000. Funds provided by operating activities during the six months ended June 30, 2000 were $1,921,000.

On September 30, 1999, the Company completed the acquisition of all the outstanding common stock of Ermanco Incorporated ("Ermanco"). Ermanco, headquartered in Spring Lake, Michigan, designs and installs complete conveying systems for a variety of manufacturing and warehousing applications.

In order to complete the Ermanco acquisition, the Company obtained financing from its principal bank. The Company entered into a new three-year line of credit facility which may not exceed the lesser of $6,000,000 or an amount based on a borrowing base formula tied principally to accounts receivable, inventory, fair market value of the Company's property and plant, and liquidation value of equipment, plus an amount equal to $2,500,000. This amount will be reduced by $625,000 every six months during the first two years of the line of credit facility until such amount reaches zero, minus the unpaid principal balance of the term loan described below. The line of credit facility is to be used primarily for working capital purposes. As of June 30, 2001, the Company did not have any borrowings under the line of credit facility.

The Company financed $14,000,000 of the acquisition through a seven-year term loan from its bank. During the first two years of the term loan, the Company will repay equal quarterly payments of $312,500 plus accrued interest. After the second anniversary of the September 30, 1999 Closing Date, the Company will make equal quarterly payments of $575,000, plus interest. The interest rate on the term loan is variable at a rate equal to the three-month LIBOR Market Index Rate plus two and one-half percent (6.21%) as of June 30, 2001. The Company also entered into an interest rate swap agreement for fifty percent of the term loan to hedge the floating interest rate.

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

Liquidity and Capital Resources (Continued)

The seven-year interest rate swap for $7,000,000 is at a fixed rate of 9.38%. During the second quarter of fiscal 2001, the Company prepaid, without penalty, $575,000 of the term loan with the variable interest rate. Also, on July 27, 2000, the Company prepaid, without penalty, $1,150,000 of the term loan with the variable interest rate. Therefore, since the inception of the term loan, the Company prepaid, without penalty, $1,725,000 of the term loan with the variable interest rate.

To obtain the line of credit and term loan, the Company granted the bank a security interest in all personal property, including, without limitation, all accounts, deposits, documents, equipment, fixtures, general intangibles, goods, instruments, inventory, letters of credit, money, securities, and a first mortgage on all real estate. The line of credit facility and term loan contain various restrictive covenants relating to additional indebtedness, asset acquisitions or dispositions, investments, guarantees, payment of dividends, and maintenance of certain financial ratios. As of June 30, 2001, the Company was in violation of the covenants related to its Funds Flow Coverage Ratio and its subordination agreement. The Company was in compliance with all other covenants and obtained appropriate waivers from the lender related to the aforementioned violated covenants as of June 30, 2001.

The Company also issued promissory notes to fourteen stockholders of Ermanco in the aggregate principal amount of $3,000,000. The notes have a term of seven years and bear interest at an annual rate of ten percent in years one through three, twelve percent in years four and five, and fourteen percent in years six and seven. The weighted average interest rate on the promissory notes is 11.714% over the term of the notes. Interest shall be payable quarterly, in cash or under certain conditions, in the Company's common stock upon approval of the Company's Board of Directors. The promissory notes may be prepaid prior to the end of the seven-year term provided that there is no debt outstanding under its line of credit facility and term loan. Effective July 1, 2001, the Company is prohibited from making any cash payments of subordinated debt and interest until the Company is in full compliance with all the financial covenants as originally set forth in the Loan Agreement with the Company's principal bank. The Company intends to satisfy its quarterly interest obligations with the issuance of the Company's common stock.

On March 4, 1996, SI/BAKER established a line of credit facility (the "facility") with its principal bank (the "bank"). Under the terms of the $3,000,000 facility, SI/BAKER's parent companies, Paragon Technologies, Inc. and McKesson Automation Inc., have each provided a limited guarantee and surety in an amount not to exceed $1,000,000 for a combined guarantee of $2,000,000 to the bank for the payment and performance of the related note, including any further renewals or modifications of the facility. As of June 30, 2001, SI/BAKER did not have any borrowings under the facility, and the facility expires effective August 31, 2002.

The Company anticipates that its financial resources, consisting of borrowings under its credit facility and cash generated from operations, will be adequate to satisfy its future cash requirements through the next twelve months. Due to the unpredictability of future contract sales, the dependence upon a limited number of large contracts with certain customers, sales volume, as well as cash liquidity, may experience fluctuations. For these reasons, cash liquidity beyond a twelve-month period is difficult for the Company to forecast with reasonable accuracy.

The Company plans to consider expansion opportunities as they arise, although ongoing operating results of the Company, the restrictive covenants associated with the financing obtained from the Company's principal bank, the economics of the expansion, and the circumstances justifying the expansion will be key factors in determining the amount of resources the Company will devote to further expansion. The Company did not have any material capital commitments as of June 30, 2001.

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

Results Of Operations

(a) Six Months Ended June 30, 2001 Versus Six Months Ended June 30, 2000

Net sales of $26,151,000 for the six months ended June 30, 2001 decreased 25.4% compared to net sales of $35,033,000 for the six months ended June 30, 2000, primarily due to the recent economic slowdown. The sales decrease for the six months ended June 30, 2001 was experienced across both of the Company's brands, SI Systems and Ermanco, when compared to the six months ended June 30, 2000. The prior year comparable period contained a greater amount of sales related to a manufacturer of computer equipment and the federal government. The Company's business is dependent upon a limited number of large contracts with certain customers. This dependence can cause unexpected fluctuations in sales volume. Along with sales recognized on the percentage of completion accounting method, the monthly rate of new orders can also vary substantially, causing fluctuations in the current backlog of orders and future revenue recognition. 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.

Gross profit, as a percentage of sales, was 25.5% for the six months ended June 30, 2001 compared to 25.5% for the six months ended June 30, 2000. Gross profit on sales for the six months ended June 30, 2001 was impacted by the reversal of approximately $480,000 in previously established contract accruals due to changes in cost estimates. Gross profit on sales for the six months ended June 30, 2000 was impacted, primarily during the second quarter of fiscal 2000, by the favorable performance on several contracts, principally for the Company's higher margin proprietary product lines, initiated in the prior fiscal year that were completed or nearing completion during the six months ended June 30, 2000. Offsetting the impact of the favorable performances on several contracts was the recognition of additional losses, primarily during the second quarter of fiscal 2000, on a major contract where significant cost overruns, resulting in losses, were experienced during the ten months ended December 31, 1999.

Selling, general and administrative expenses of $5,686,000 were higher by $428,000 for the six months ended June 30, 2001 than in the six months ended June 30, 2000. The increase is primarily attributable to approximately $330,000 of charges during the second quarter of 2001 related to a strategic transaction that was not completed, and approximately $175,000 of expenses during the first quarter of 2001 associated with the reduction of associates due to the recent economic slowdown.

Product development costs of $316,000 were higher by $207,000 for the six months ended June 30, 2001 than in the six months ended June 30, 2000. Development programs in the six months ended June 30, 2001 included enhancements to the Company's Order Picking, Fulfillment, and Replenishment product line and also development efforts related to two new products, NBS 30(TM) and NBS 90(TM), narrow belt sorters that were introduced in the materials handling marketplace during 2001. Development progress in the six months ended June 30, 2000 included enhancements to the Company's conveyor technology, and horizontal transportation and Order Picking, Fulfillment, and Replenishment product lines.

During the second quarter ended June 30, 2001, the Company announced a restructuring to its business operations and recorded a charge of $1,538,000 for restructuring costs. In conjunction with the restructuring plan, the Company reduced the number of office associates by fourteen and will discontinue production operations at its Easton, Pennsylvania facility. All production employees working in the Easton, Pennsylvania manufacturing plant will be laid off. Layoffs are expected to begin on August 31, 2001, and will be completed on or before November 30, 2001. The Company currently employs approximately twenty production employees with an additional twenty-seven individuals on an extended layoff. The restructuring charges included costs of $678,000 for severance and other personnel costs, $562,000 for pension expense

Results of Operations

(a) Six Months Ended June 30, 2001 Versus Six Months Ended June 30, 2000 (Continued)

associated with the curtailment of the Company's defined benefit plan for the Company's Easton, Pennsylvania collective bargaining personnel, and $298,000 for facility closure, and legal and professional service fees expected to be incurred relating to the restructuring. The restructuring charges were determined based on formal plans approved by the Company's management and the Board of Directors using the information available at the time. Management of the Company believes this provision will be adequate to cover any future costs incurred relating to the restructuring.

Restructuring expenses of $337,000 for the six months ended June 30, 2000 was associated with a restructuring initiative, whereby the Company reduced the number of associates by sixteen.

Interest expense of $691,000 was lower by $146,000 for the six months ended June 30, 2001 than in the six months ended June 30, 2000. The decrease in interest expense was primarily attributable to the reduced level of term debt due to principal prepayments.

Interest income of $180,000 for the six months ended June 30, 2001 increased by $44,000, when compared to the six months ended June 30, 2000. The increase in interest income was attributable to higher level of funds, primarily during the first quarter of 2001, available for short-term investments during the six months ended June 30, 2001.

Equity in income of joint ventures represents the Company's proportionate share of its investments in the SI-Egemin and SI/BAKER joint ventures that are being accounted for under the equity method. The net favorable variance of $153,000 in the equity in income of joint ventures for the six months ended June 30, 2001 as compared to the six months ended June 30, 2000 was comprised of increased earnings of approximately $99,000 attributable to the SI/BAKER joint venture. In addition to the increased earnings of the SI/BAKER joint venture were the decreased losses of approximately $54,000 attributable to the SI-Egemin joint venture.

The favorable variance of $99,000 for the six months ended June 30, 2001 in the equity in income of the SI/BAKER joint venture was attributable to favorable performance on several contracts initiated in prior fiscal years that were completed or nearing completion during the six months ended June 30, 2001 plus (1) a reduction of $70,000 in revenue-based royalty costs due to the parent companies, and (2) an increase of $35,000 in interest income. Partially offsetting these favorable variances was an increase of $201,000 in product development expenses.

The favorable variance of $54,000 for the six months ended June 30, 2001 in the equity in income of the SI-Egemin joint venture was primarily attributable to a reduction in operating expenses of the joint venture.

The Company recognized an income tax benefit of $520,000 during the six months ended June 30, 2001, compared to the incurrence of income tax expense of $1,033,000 in the comparable prior year period. The income tax benefit recognized for the six months ended June 30, 2001 represented the carryback of current fiscal year losses against prior year income. Income tax expense for the six months ended June 30, 2000 was generally recorded at statutory federal and state tax rates expected to apply for that fiscal year.

The total backlog at June 30, 2001 was approximately $19,904,000. During the six months ending June 30, 2001, the Company received orders totaling approximately $23,142,000.

With the exception of the following Statement of Operations captions, changes in the second quarter of calendar year 2001 compared to the prior year were consistent with those previously noted above for the six-month period.

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

Results of Operations (Continued)

(b) Three Months Ended June 30, 2001 Versus Three Months Ended June 30, 2000

Gross profit as a percentage of sales was 25.1% for the three months ended June 30, 2001 compared to 27.1% for the three months ended June 30, 2000. The decrease in the gross profit percentage for the three months ended June 30, 2001 was primarily attributable to the underabsorption of fixed costs due to a reduction in sales volume.

Selling, general and administrative expenses of $2,745,000 were lower by $123,000 for the three months ended June 30, 2001 than in the three months ended June 30, 2000. The decrease in selling, general and administrative expenses is primarily attributable to decreases of approximately $200,000 of those expenses based on revenue and profit performance, and approximately $240,000 of product promotion and marketing expenses. Partially offsetting the decrease in selling, general and administrative expenses was approximately $330,000 of charges during the second quarter of 2001 related to a strategic transaction that was not completed.

Cautionary Statement

Certain statements contained herein are not based on historical fact and are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 or by the Securities and Exchange Commission rules, regulations, and releases. The Company intends that such forward-looking statements be subject to the safe harbors created thereby. Among other things, they regard the Company's acquisition activities, earnings, liquidity, financial condition, and certain operational matters. Words or phrases denoting the anticipated results of future events, such as "anticipate," "believe," "estimate," "expect," "may," "will," "will likely," "are expected to," "will continue," "should," "project," and similar expressions that denote uncertainty, are intended to identify such forward-looking statements. The Company's actual results, performance, or achievements could differ materially from the results expressed in, or implied by, such "forward-looking statements": (1) as a result of risks and uncertainties identified in connection with those forward-looking statements, including those factors identified herein, and in the Company's other publicly filed reports; (2) as a result of risks and uncertainties associated with the Ermanco acquisition, including the failure to realize anticipated benefits of such acquisition, the failure to integrate Ermanco successfully with the Company, and any unforeseen complications related to the Ermanco acquisition; (3) as a result of risks associated with the Company's restructuring, including the failure to achieve anticipated operating savings, and the possibility that the restructuring charges will be greater than anticipated; (4) 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; (5) if the factors on which the Company's conclusions are based do not conform to the Company's expectations.

Quantitative and Qualitative Disclosures

The Company's primary market risk exposure is from changes in interest rates. The Company's policy is to manage interest rate exposure through the use of a combination of fixed and floating rate debt instruments, and since September 30, 1999, an interest rate swap agreement. Generally, the Company seeks to match the terms of its debt with its purpose. The Company uses a variable rate line of credit facility to provide working capital for operations. On September 30, 1999, the Company entered into an interest rate swap agreement for 50% of its new term loan from its principal bank to effectively convert half of the term loan from a variable rate note to a fixed rate note. A standard interest rate swap agreement involves the payment of a fixed rate times a notional amount by one party in exchange for a floating rate times the same notional amount from another party. The counterpart to the swap agreement is the Company's principal bank.

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, including the interest rate swap agreement, are material to its results of operations.

PART II -- OTHER INFORMATION

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

The Company's Annual Meeting of Shareholders was held on June 26, 2001 with the following items being submitted to a vote of shareholders:

1. The election of eight directors to the Board of Directors.
2. The approval of the proposed amendment to the 1997 Equity Compensation Plan to increase the number of shares of the Company's common stock reserved for grants under the Plan by 300,000.
3. The recommendation that the Board of Directors take all necessary steps to reincorporate the Company from Pennsylvania to Delaware.

Details of the proposals noted above were provided to shareholders in the form of a Notice of Annual Meeting and Proxy Statement dated and mailed on May 29, 2001, with such solicitation being in accordance with Regulation 14 of the Securities and Exchange Act of 1934.

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

Proposal Number 2 for the approval of the amendment to the 1997 Equity Compensation Plan and Proposal Number 3 for the recommendation that the Board of Directors take all necessary steps to reincorporate the Company from Pennsylvania to Delaware were duly approved by the shareholders.

The voting results on the three matters noted above are set forth as follows:

1. Election of Directors:

Name of Nominee	Votes For	Votes Withheld	Non-Voting
L. Jack Bradt	2,507,598	1,516,910	186,451
Elmer D. Gates	2,443,422	1,581,086	186,451
Michael J. Gausling	2,395,969	1,628,539	186,451
Gilman J. Hallenbeck	3,791,309	233,199	186,451
William R. Johnson	2,338,309	1,686,199	186,451
Leon C. Kirschner	3,644,234	380,274	186,451
Anthony W. Schweiger	3,791,309	233,199	186,451
Steven Shulman	3,766,309	258,199	186,451

2. Approval of the amendment to the 1997 Equity Compensation Plan:

Votes For	Votes Against	Abstentions	Non-Voting
1,765,943	1,702,015	134,560	608,441

3. Recommendation that the Board of Directors take all necessary steps to reincorporate from Pennsylvania to Delaware:

Votes For	Votes Against	Abstentions	Non-Voting
3,302,614	287,120	12,784	608,441

Item 5. Other Information

Effective June 25, 2001, Leon C. Kirschner became the Chief Operating Officer of the Company.

Effective June 25, 2001, Gordon A. Hellberg became Vice President - Sales of the Company.

Effective June 25, 2001, Lee F. Schomberg became Vice President - Marketing of the Company.

On July 24, 2001, Michael J. Gausling resigned from the Board of Directors of the Company due to a combination of business commitments and personal considerations.

PART II-- OTHER INFORMATION (Continued)

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits-- None.

(b) No reports on Form 8-K were filed during the quarter ended June 30, 2001.

Paragon Technologies, Inc. and Subsidiary

SIGNATURE

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

PARAGON TECHNOLOGIES, INC.

/S/ William R. Johnson

William R. Johnson
President & CEO

/S/ Ronald J. Semanick

Ronald J. Semanick
Chief Financial Officer

Dated: August 13, 2001

Schedule A

SI/BAKER, INC.

Financial Statements
June 30, 2001

SI/BAKER, INC.
Balance Sheets
June 30, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	(UNAUDITED) June 30, 2001	December 31, 2000
Assets		
Current assets:		
Cash and cash equivalents, principally time deposits	$ 3,538	4,681

Receivables:		
Trade	2,399	1,001
Other receivables	44	65
Total receivables	2,443	1,066
Costs and estimated earnings in excess of billings	318	1,873
Deferred income tax benefits	409	409
Prepaid expenses and other current assets	50	36
Total current assets	6,758	8,065
Machinery and equipment, at cost	232	222
Less: accumulated depreciation	163	147
Net machinery and equipment	69	75
Equipment leased to customer	-	487
Less: accumulated depreciation	-	487
Net equipment leased to customer	-	-
Deferred income tax benefits	8	8
Total assets	$ 6,835	8,148

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SI/BAKER, INC.
Balance Sheets
June 30, 2001 and December 31, 2000
(In Thousands, Except Share Data)

	(UNAUDITED) June 30, 2001	December 31, 2000
Liabilities and Stockholders' Equity		

Current liabilities:		
Accounts payable:		
Trade	$ 287	663
Affiliated companies	20	56
Total accounts payable	307	719
Customers' deposits and billings in excess of costs and estimated earnings	746	1,459
Accrued salaries, wages, and commissions	250	358
Income taxes payable	87	127
Accrued royalties payable	155	766
Accrued product warranties	1,140	1,055
Accrued other liabilities	26	88
Total current liabilities	2,711	4,572
Stockholders' equity:		
Common stock, $1 par value; authorized 1,000 shares; issued 200 shares	-	-
Additional paid-in capital	200	200
Retained earnings	3,924	3,376
Total stockholders' equity	4,124	3,576
Total liabilities and stockholders' equity	$ 6,835	8,148

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SI/BAKER, INC.
Statements of Operations (Unaudited)
Six Months Ended June 30, 2001 and June 30, 2000
(In Thousands)

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
Net sales	$ 3,318	4,585	6,249	8,018
Cost of sales	2,014	3,793	4,439	6,668

Gross profit on sales	1,304	792	1,810	1,350
Selling, general and administrative expenses	284	273	547	542
Product development costs	256	59	276	75
Royalty expense to parent companies	133	183	250	320
Interest income	(40)	(28)	(106)	(71)
Other income, net	(34)	(51)	(70)	(96)
	599	436	897	770
Earnings before income taxes	705	356	913	580
Income tax expense	282	139	365	230
Net earnings	$ 423	217	548	350

SI/BAKER, INC.
Statements of Cash Flows (Unaudited)
Six Months Ended June 30, 2001 and June 30, 2000
(In Thousands)

	Six Months Ended	
	June 30, 2001	June 30, 2000
Cash flows from operating activities:		
Net earnings	$ 548	350
Adjustments to reconcile net earnings to net cash used by operating activities:		

Depreciation of machinery and equipment and leased equipment	16	35
Changes in operating assets and liabilities:		
Receivables	(1,377)	(1,691)
Costs and estimated earnings in excess of billings	1,555	917
Prepaid expenses and other current assets	(14)	(160)
Accounts payable	(412)	494
Customers' deposits and billings in excess of costs and estimated earnings	(713)	3
Accrued salaries, wages, and commissions	(108)	(50)
Income taxes payable	(40)	(110)
Accrued royalties payable	(611)	36
Accrued product warranties	85	118
Accrued other liabilities	(62)	12
Net cash used by operating activities	(1,133)	(46)
Cash flows from investing activities:		
Additions to machinery and equipment	(10)	(21)
Net cash used by investing activities	(10)	(21)
Increase (decrease) in cash and cash equivalents	(1,143)	(67)
Cash and cash equivalents, beginning of period	4,681	2,895
Cash and cash equivalents, end of period	3,538	2,828
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	412	375
Interest	-	7