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**PARAGON**  
TECHNOLOGIES

**ANNUAL REPORT**

**December 31, 2003**





## WE BUILD PRODUCTIVITY

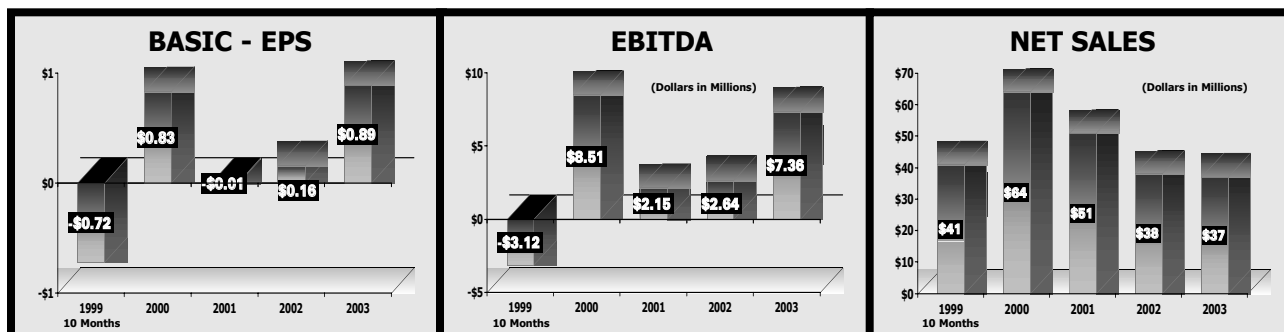
**Paragon Technologies, Inc.** is one company, with a wide range of capabilities to meet the material handling needs of an increasingly diverse and demanding marketplace. Paragon is an unparalleled resource for specialized material handling solutions that are delivered to the marketplace through two primary brands — Ermanco and SI Systems. Our strategy is to leverage each brand to enhance and further strengthen the other, as well as the whole.

**Ermanco** — sortation, accumulation, and innovation. No name in the industry means more in the areas of accumulation and sortation technologies. Ermanco has a strong reputation for efficient, high-performance material handling components and creating new technologies that have quickly become industry standards. The NBS family of sorters has provided customers with exceptional, cost-effective, high-speed systems, that positions the company to make even greater inroads in other areas of manufacturing and distribution processes, such as accumulation and induction to further enhance integration and throughput.

**SI Systems** — new excitement in our technologies and our potential. Reputations in material handling are earned through long-term performance. Few companies have a better track record than SI Systems. Its LO-TOW<sup>®</sup>, CARTRAC<sup>®</sup>, and DISPEN-SI-MATIC<sup>™</sup> technologies are relied upon in industries throughout the world. Now, SI Systems is adding new excitement to those technologies, with software products, ergonomic improvements, and control system solutions that further enhance productivity. We're also extending the reach of SI Systems' productivity to a broader marketplace by selling SI Systems' capabilities through our existing Paragon Technologies distributor network.



## FINANCIAL HIGHLIGHTS



(Dollars in thousands, except share and per share data)

	Fiscal Year Ended				10 Months Ended
	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
<b>Statement of Operations:</b>					
Net sales	\$ 37,295	38,224	50,752	64,306	41,108
Operating income (loss)	\$ (124)	1,216	(198)	6,176	(4,074)
Operating margin	-3%	3.2%	-4%	9.6%	-9.9%
Earnings (loss) before income taxes	\$ 6,209	930	(319)	5,713	(4,174)
Interest expense	\$ 676	1,046	1,298	1,633	444
EBIT	\$ 6,885	1,976	979	7,346	(3,730)
Depreciation expense	\$ 472	661	706	648	369
Amortization expense (excluding write-off of intangible assets)	\$ -	-	468	514	242
EBITDA	\$ 7,357	2,637	2,153	8,508	(3,119)
Net earnings (loss)	\$ 3,785	663	(62)	3,480	(2,780)
Basic earnings (loss) per share	\$ .89	.16	(.01)	.83	(.72)
Diluted earnings (loss) per share	\$ .87	.15	(.01)	.82	(.73)
<b>Balance Sheet:</b>					
Current assets	\$ 14,691	15,444	19,200	22,850	21,686
Current liabilities	\$ 9,646	9,472	13,388	15,193	16,311
Working capital	\$ 5,045	5,972	5,812	7,657	5,375
Current ratio	\$ 1.52	1.63	1.43	1.50	1.33
Total assets	\$ 33,774	36,703	41,343	45,917	45,406
Total long-term debt	\$ -	7,263	9,900	12,780	15,451
Total stockholders' equity	\$ 21,969	17,829	16,881	16,980	13,425
Total capitalization	\$ 21,969	25,092	26,781	29,760	28,876
Average return on equity	19.0%	3.8%	-4%	22.9%	-21.7%
Average return on investment	16.1%	2.6%	-2%	11.9%	-13.5%
<b>Other Information:</b>					
Book value per share	\$ 5.14	4.19	4.00	4.05	3.21
Cash flow from operations per basic weighted average share outstanding	\$ .08	.84	.22	1.21	2.18
Cash dividends per share	\$ -	-	-	-	.10
Shares of common stock outstanding	4,277,595	4,256,098	4,221,635	4,194,869	4,184,878
Basic - weighted average shares outstanding	4,269,274	4,231,878	4,210,819	4,189,874	3,835,718
Diluted - weighted average shares outstanding	4,364,712	4,300,193	4,210,819	4,207,644	3,852,211
Backlog of orders	\$ 10,525	6,924	13,342	22,913	23,685

## **INSIDE PARAGON — 2003**

**A good year . . . and a great future!**

The year 2003 saw the achievement of significant milestones at Paragon Technologies.

It was a year of major strengthening of the Company's balance sheet with the elimination of all senior and subordinated debt, a 23% improvement in book value per share, and a 19% average return on equity.

The sale of the Company's Easton, Pennsylvania facility and the SI/BAKER joint venture were in line with the Company's strategic direction of reducing debt, fixed cost reduction, and focus on increasing market opportunities.

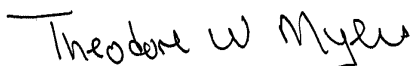
Addressing the marketplace, the Company's sales organization was recently reorganized into business units, which focus Corporate technology talent to the diverse markets that we serve. The Order Fulfillment unit is staffed to service strong market niches; namely, health and beauty aids, entertainment, wholesale drug distributors, chain drug stores, and the food and beverage industry, all of which seek productivity improvements to multifaceted logistic operations. The coordinated SI Systems and Ermanco operations have extensive experience with a customer base of 1,400 in this arena.

The Production and Assembly Systems sales force focuses on many markets, including automotive, appliance, newspaper roll handling, recreational vehicles, and governmental operations, such as the Department of Defense and the United States Postal Service.

SI Systems' development efforts included completion of new software, which greatly optimizes distribution center operations on a real-time basis. The Ermanco Product Development Program consists of enhancements to NBS<sup>®</sup> sorters, expansion of the range of NBA-23<sup>™</sup> narrow belt accumulation conveyors, and the new Pick Zone Module, a unique conveyor subsystem designed for maximum efficiency and value to transfer products through packing stations at high throughput rates. Evolutionary development on LO-TOW<sup>®</sup> products has opened new markets for this well-established product.

With the Company's strong balance sheet, streamlined operation, and large diverse customer base, it is a near certainty that we will share in the improving economic climate for capital goods in the upcoming year.

Sincerely,



Theodore W. Myers  
Chairman of the Board



Leonard S. Yurkovic  
President and CEO

# INSIDE PARAGON — 2003

A good year . . . and a great future!

In a year when most companies continued to face challenging business conditions (particularly those supplying products and services requiring large capital investments), Paragon Technologies managed to demonstrate resilient sales performance and take positive steps to position itself for an even brighter future for its Ermanco and SI Systems brands.



Among the key changes was the appointment of a new leader at the top. In October, Leonard S. Yurkovic ("Len") was named President and Chief Executive Officer of Paragon Technologies. Len

Yurkovic has held several executive-level positions with the Company dating back to 1979. He returned to the Company's Board of Directors in 2002 after retiring as Chief Executive Officer and a member of the Board in 1999.

Len Yurkovic replaces William R. Johnson ("Bill"), who resigned his positions as President and Chief Executive Officer and a member of Paragon's Board of Directors to pursue other opportunities. All of us would like to join in thanking Bill for his service and leadership in establishing a strong foundation for Paragon's success, and wish him well for the future.

The Company furthered its goal of increasing shareholder value with several actions early in the year. Among them was the sale of the Company's Easton, Pennsylvania facility for approximately \$2.9 million in February 2003.



Another action involved Paragon Technologies' SI/BAKER joint venture. In September 2003, the Company announced the sale of its 50% ownership interest in the SI/BAKER joint venture for \$5.6 million. This allowed Paragon to retire all senior and subordinated debt with the proceeds, strengthening its financial position, and allowing it to focus on its SI Systems and Ermanco brands.



**ERMANCO** showed not only strength, but also diversity in its sales results over the past year. Its material handling expertise made it a prime choice for customers in a variety of industries, spanning many different applications.

In the area of work-in-progress and just-in-time assembly systems, Ermanco was awarded high-value contracts for systems to handle wheel and tire subassemblies for automotive and RV manufacturers, and other systems to be used for products as diverse as plumbing parts and computers.

Ermanco was also awarded numerous contracts for distribution and order fulfillment systems. Customers included a large chain of women's apparel stores, a safety products distributor, and companies involved in the retailing of cosmetics and entertainment products.

Many of these contracts were directly attributable to the new technologies introduced by Ermanco in recent years. A large commercial mail facility, for example, will handle trays of mail, including sorting and shipping, with CRUZcontrol™ — Ermanco's newest accumulation logic package.



A major perfume and cosmetics company awarded Ermanco a contract calling for the installation of several of the newest technologies, including CRUZcontrol™, NBA-23™ Narrow Belt Accumulation Conveyors, NBS 30® Narrow Belt Sorters, and specialized pick zone modules.

## INSIDE PARAGON — 2003

A good year . . . and a great future!

Multiple new contracts came from retailers and distributors in the entertainment industry. These customers were won over by the new NBS 90-SP® Narrow Belt Sorter for its ability to deftly handle CDs, DVDs, VHS tapes, and more. At least one such customer will utilize the technology for these products as they are returned to the distribution facility. This represents great potential for Ermanco in the future as more companies in the mail-order and E-commerce industries seek to incorporate automation and efficiency into the process of handling returns.



Ermanco's new technologies establish a foundation for continued growth, as evidenced by their strong early acceptance in the marketplace. More than 130 NBS® sorters have been installed and are operating satisfactorily in a time span of three years. Since its introduction in 2003, the NBA™ Narrow Belt Accumulation Conveyors have been installed at 30 locations, and the new CRUZcontrol™ package is already in place in over 50 applications. Clearly, Ermanco's expertise begins with developing the products that customers want the most. That bodes very well for the future, indeed.



Paragon Technologies' **SI SYSTEMS** brand also managed to "hang tough" in a challenging year. SI Systems saw consistent demand for many of its most accepted and widely preferred technologies.

A major automaker contracted for a CARTRAC® system for use in manufacturing a new body style for its vehicle line.

Several important contracts were awarded to SI Systems for its state-of-the-art DISPEN-SI-MATIC™ hardware and software technologies. Customers included an order fulfillment concern in the health care industry, and a fully automated order selection system for the electronic entertainment industry.

SI Systems won a major contract worth approximately \$1.3 million for a state-of-the-art automated order fulfillment system for a major cosmetics manufacturer. That victory is all the sweeter as the system also incorporates Ermanco conveyors.

SI Systems' order fulfillment expertise was also critical in obtaining another contract to provide software designed to improve the performance of the customer's distribution and order fulfillment operations.

SI Systems intends to step up its marketing efforts in key category segments, especially those for whom specialized SI Systems technologies are uniquely appropriate and promising.

Based on the track records of our Ermanco and SI Systems brands, we are optimistic about what the future holds as U.S. economic conditions improve.



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## OFFICERS

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**Leonard S. Yurkovic**  
President and CEO  
Paragon Technologies, Inc.

**Leon C. Kirschner**  
Chief Operating Officer  
Paragon Technologies, Inc.  
President, Ermanco Incorporated

**Ronald J. Semanick**  
Vice President Finance, CFO, Treasurer & Secretary  
Paragon Technologies, Inc.

**Gordon A. Hellberg**  
Vice President Sales, Paragon Technologies, Inc.  
Vice President Sales, Ermanco Incorporated

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## DIRECTORS

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**Theodore W. Myers**  
Chairman of the Board, Paragon Technologies, Inc.  
Former First Vice President and Branch Manager,  
Tucker Anthony Sutro

**Leonard S. Yurkovic**  
Vice Chairman of the Board, Paragon Technologies, Inc.  
President and CEO, Paragon Technologies, Inc.

**L. Jack Bradt**  
Founder, former Chairman, President and CEO  
of SI Handling Systems, Inc.

**Leon C. Kirschner**  
Chief Operating Officer, Paragon Technologies, Inc.  
President, Ermanco Incorporated

**Anthony W. Schweiger**  
President and CEO, The Tomorrow Group, LLC  
Principal, e-brilliance, LLC  
Director, Radian Group Inc.  
Director, Input Technologies, LLC

**Steven Shulman**  
Principal, The Hampton Group  
Chairman, Terrace Food Group, Inc.  
Director of C3i Inc., Transportation Technologies, Inc.,  
TNP Enterprises, Inc., PlasmaSol Corp.,  
Beacon Capital Partners, Inc., and Ark Restaurants Corp.

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**Stock Listing**  
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*The Order Fulfillment Experts*



*The Sortation and  
Accumulation Experts*



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TECHNOLOGIES

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