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ANNUAL REPORT
December 31, 2007





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 under the SI Systems' Production & Assembly and SI Systems' Order Fulfillment brands.

SI Systems — renewed 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[®], CARTRAC[®], and DISPEN-SI-MATIC[®] technologies are relied upon in industries throughout the world. Now, SI Systems has added breadth to those technologies, with software products, diagnostic services, ergonomic improvements, and control system solutions that further enhance productivity.



FINANCIAL HIGHLIGHTS

	Fiscal Year Ended				
	12/31/07	12/31/06	12/31/05	12/31/04	12/31/03
<i>(Dollars in thousands, except share and per share data)</i>					
Statement of Operations:					
Net sales	\$ 21,448	17,788	16,676	11,702	12,083
Operating income (loss)	\$ (561)	(239)	(172)	(449)	(236)
Operating margin	-2.6%	-1.3%	-1.0%	-3.8%	-2.0%
Income (loss) from continuing operations before income taxes	\$ (92)	449	301	(271)	6,034
Interest expense	\$ 1	1	1	4	676
EBIT from continuing operations	\$ (91)	450	302	(267)	6,710
Depreciation expense	\$ 109	104	90	104	139
EBITDA from continuing operations	\$ 18	554	392	(163)	6,849
Income (loss) from continuing operations	\$ 341	468	208	(165)	3,685
Income (loss) from discontinued operations, net of income taxes	\$ -	-	990	1,638	100
Net income	\$ 341	468	1,198	1,473	3,785
Basic earnings (loss) per share:					
Income (loss) from continuing operations	\$ 0.12	0.14	0.05	(0.04)	0.87
Income (loss) from discontinued operations	\$ -	-	0.24	0.38	0.02
Net income	\$ 0.12	0.14	0.29	0.34	0.89
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	\$ 0.12	0.14	0.05	(0.04)	0.85
Income (loss) from discontinued operations	\$ -	-	0.24	0.38	0.02
Net income	\$ 0.12	0.14	0.29	0.34	0.87
Balance Sheet:					
Current assets	\$ 17,842	16,370	22,134	14,249	14,720
Current liabilities	\$ 5,802	4,296	5,337	7,355	9,583
Working capital	\$ 12,040	12,074	16,797	6,894	5,137
Current ratio	3.08	3.81	4.15	1.94	1.54
Total assets	\$ 18,316	16,752	22,596	33,424	33,803
Total long-term debt	\$ -	-	-	-	-
Total stockholders' equity	\$ 12,253	12,428	17,066	23,308	22,061
Total capitalization	\$ 12,253	12,428	17,066	23,308	22,061
Average return on equity	2.8%	3.2%	5.9%	6.5%	19.0%
Average return on investment	2.8%	3.2%	5.9%	6.5%	16.0%
Other Information:					
Book value per share	\$ 4.42	4.32	4.82	5.46	5.16
Shares of common stock outstanding	2,769,192	2,873,891	3,539,019	4,265,310	4,277,595
Basic - weighted average shares outstanding	2,791,945	3,307,382	4,073,252	4,278,065	4,269,274
Diluted - weighted average shares outstanding	2,791,945	3,311,755	4,118,594	4,350,297	4,364,712
Orders	\$ 23,450	16,802	18,080	13,164	11,301
Backlog of orders	\$ 7,934	5,932	6,918	5,514	4,052

LETTER TO STOCKHOLDERS

Dear Stockholders:

Every successful company engages in a continuous evaluation of its strengths and weaknesses, and makes appropriate adjustments, with the major goal of improving the value of the enterprise.

Addressing business strengths, the Company has an exceptionally strong balance sheet, with well-controlled non-cash current assets and a robust cash position. Its Production & Assembly and Order Fulfillment technologies have recognizable and highly respected positions in the automated material handling industry. Paragon Technologies enjoys a diverse and enviable customer base, with repetitive business fueled by customer loyalty and ongoing customer support arrangements.

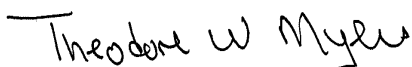
The markets in which the Company competes are highly competitive. The Company's ability to remain competitive and its future success depend upon the technological quality of its products and processes relative to those of its competitors. The Company continues to maintain an aggressive pace of software and hardware development efforts, often financially supported by its Fortune 500 customer base.

The Company's bookings, backlog of orders, and sales for 2007 all rose when compared to the prior year; however, the increase in sales was not reflected in commensurate profitability. Profitability for 2007 was impacted by several contributing factors, including a change in product mix, along with a heavy concentration of sales efforts in response to quoting and sales activities.

Paragon Technologies is aggressively exploring strategic alternatives and all options that can take full advantage of its proven technologies, solid balance sheet, and highly experienced personnel, with the goal of substantially increasing its future profitability.

We are grateful to our stockholders, suppliers, and dedicated employees for their high level of support during this period of economic uncertainty.

Sincerely,



Theodore W. Myers
Chairman of the Board



Leonard S. Yurkovic
Acting CEO

INSIDE PARAGON — 2007

Delivering Innovation and Excellence



Product excellence and reliability, combined with system design experience in manufacturing applications, have enabled the SI Systems'

Production & Assembly Systems brand to achieve a market leadership position in the automated material handling industry for 50 years. Our time-tested technologies and systems solutions have been proven in over 1,200 customer applications in a wide range of industries. With a renowned customer base of Fortune 500 companies, the Company enjoys a dominant market position in selected niches that require horizontal transport of heavy unit loads.

Unit load applications can be engaged in a production environment in simple human-assisted applications, such as the assembly of golf cars,



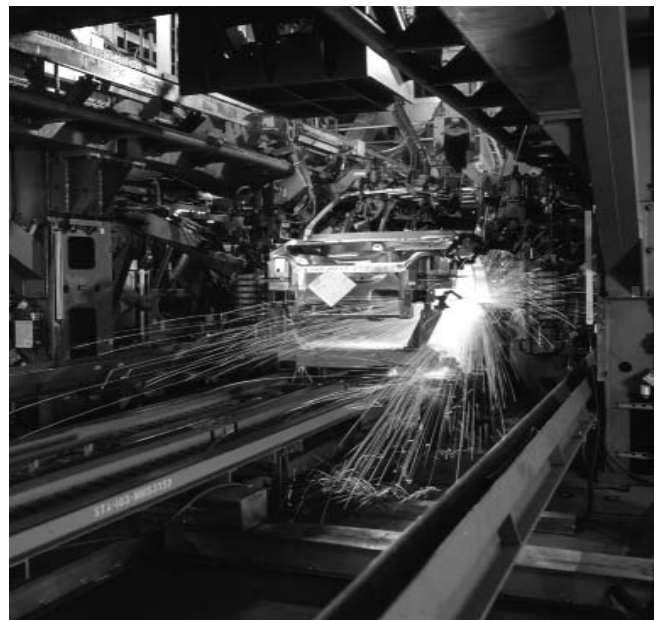
engines, motorcycles, or a sophisticated high-precision build task involving robotic interface.

SI Systems market leading position is being widely recognized by a cadre of companies involved in the manufacture of all types of transportation equipment, particularly vehicles of any kind and vehicle sub-assembly components. Existing customers who have adopted our conveyor technologies have come to rely on and trust our solutions because of our ability to identify and solve their unique requirements.

Technologies designed and manufactured by SI Systems are "engineered right and built tough" - designed to outperform alternate assembly conveyor technologies while delivering maximum uptime and a longer life cycle, all of which help drive



manufacturing productivity and profits for our customers. We will continue to build on these product and technology strengths, along with our outstanding customer satisfaction and brand reputation, to achieve future profitable growth.



INSIDE PARAGON — 2007

Delivering Innovation and Excellence



Innovation and excellence have always been the hallmark for SI Systems' Order Fulfillment branded technologies. This credo continues to drive SI Systems to be market leaders in distribution applications.

For over two decades, SI Systems has been recognized as a premier supplier of piece-picking intensive distribution solutions. This is a growing market, accentuated by an increase in internet based direct-to-consumer sales and a shift in supply chain



strategies by retailers dictating smaller, more frequent shipments. Our DISPEN-SI-MATIC[®] technologies fit well into these new distribution models, and our SYNTHESIS[®] Software Suite is ideally suited for these environments.

In addition, an increasingly global economy has placed a worldwide focus on distribution. Heightened levels of customer service exist throughout all industries and in all markets, once again creating opportunities for SI Systems. We proactively respond to these needs by introducing new products and creating an increased presence geographically when these opportunities arise.

The distribution industry now demands turnkey solutions from its suppliers in lieu of past strategies, which dictated multiple project resources and multiple points of responsibility. This shift is

embraced by SI Systems as we broaden our product offerings through internal development and new partnership opportunities. SI Systems is a "turnkey" material handling systems supplier and, as such, can more appropriately respond to our client's needs.



Our latest product, the web-based DC XCELLERATOR[®], now enables a broad base of industries to utilize sophisticated planning tools at an extremely compelling cost. This is groundbreaking technology that is priced for widespread application in order fulfillment facilities.

SI Systems is poised for strong growth as we continue to respond to market needs with technologically-superior products and services. We will use this as a foundation to build upon for continued profitable growth.



OFFICERS

Leonard S. Yurkovic
Acting CEO
Paragon Technologies, Inc.

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

William J. Casey
Executive Vice President
Paragon Technologies, Inc.

John F. Lehr
Vice President
Paragon Technologies, Inc.

DIRECTORS

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

Ronald J. Izewski
Senior Vice President and Chief Financial Officer,
Just Born, Inc.

Robert J. Schwartz
Founder and President of Land Equity Inc.

Samuel L. Torrence
President (retired), Just Born, Inc.

Leonard S. Yurkovic
Acting CEO, Paragon Technologies, Inc.

Stock Listing

The American Stock Exchange
Trading Symbol: "PTG"

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Transfer Agent & Registrar

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PARAGON
TECHNOLOGIES

50th Anniversary
1958-2008

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