



PARAGON
TECHNOLOGIES

DIRECTIONS
to
Pepper Hamilton LLP
400 Berwyn Park
899 Cassatt Road
Suite 300
Berwyn, PA 19312
610-640-7800 (Phone) • 610-640-7835 (Fax)

The entrance to the parking lot for 400 Berwyn Park is on Cassatt Road,
just off of Route 252. Pepper Hamilton's office is on the third floor.

From Lancaster Pike (Route 30)

At the intersection of Routes 30 and 252 in Paoli, go North on Route 252. At the fourth light (Cassatt Road) turn right. Take immediate left into parking lot.

From Philadelphia and Points East

Take I-76 (Schuylkill Expressway) West. As you approach the Valley Forge/King of Prussia area, which is the end of the Expressway, take Exit 328/Route 202 South. Follow directions from Route 202 South, below.

From Route 202 South (From Points North)

Travel on Route 202 South past exit for Devon/Route 252 North. Exit at Paoli/Route 252 South. Get in left lane. Go to first traffic light and turn left onto Cassatt Road. Take immediate left into parking lot.

From Pennsylvania Turnpike

Take Pennsylvania Turnpike to Exit 326/Valley Forge. Take Route 202 South. Follow directions from Route 202 South, above.

From I-476 (Blue Route) North

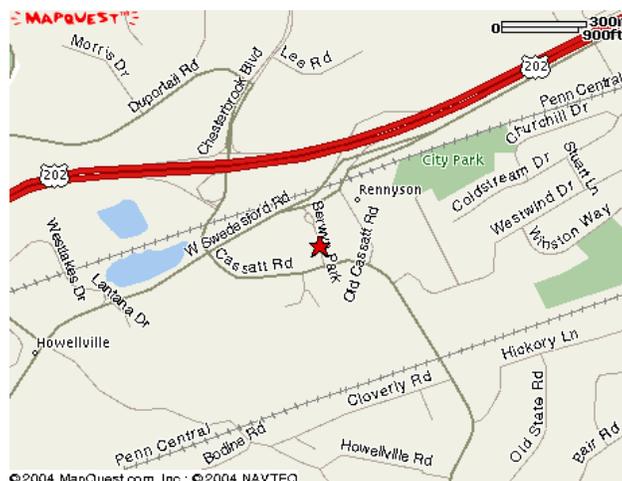
Take I-476 (Blue Route) North to Exit 16-B/I-76 (Schuylkill Expressway) West. Follow directions from Philadelphia and Points East, above.

From Route 202 North (From Points South)

Follow Route 202 North. Take Chesterbrook Boulevard exit. At the end of the ramp, turn right onto Chesterbrook Boulevard. Continue through traffic light (crossing Route 252) onto Cassatt Road. Take immediate left into parking lot.

From Route 422 (Oaks)

Take Route 422 East to Route 202 South (West Chester exit). Follow directions from Route 202 South, above.



LETTER TO STOCKHOLDERS

Dear Stockholders:

Since the marketplaces for our products are heavily based on the economic wherewithal of Fortune 500 companies, we continue to be affected by the economic volatility being experienced by most of our current and prospective customers as a result of delayed orders and extended project schedules. Reductions in outlays for capital equipment and related services have obviously impacted our new order intake. The result, we believe, will be a shifting of business into future fiscal years.

Every effort has been made to reduce corporate costs, while expanding, enhancing, and further developing the high technology base that is so important to the future of our Company. Despite the tough economy, we continue to maintain a strong balance sheet. Continued investment in product development and new technologies to attract new customers and pursue new markets remains a core strategy.

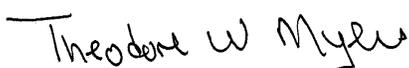
We are observing a level of interest in our products in certain sectors of the marketplaces that we serve, and believe that the need for the cost-effective capabilities we provide through our software and hardware technologies will remain in line with the movement of the Country's economic climate.

The decisive actions that we took to reduce costs in recent years were important from a financial standpoint. Although the timing of a market recovery is uncertain, the cost reductions, coupled with careful investments in product development, position us to perform well as the economy improves.

The Board of Directors recently added Peter Kamin and Sham Gad to the Company's Board of Directors. Mr. Kamin and Mr. Gad are two of the Company's largest stockholders, and their joining the Board illustrates Paragon's desire to further enhance the composition of the Board as it considers strategies and transactions intended to maximize stockholder value.

We appreciate the continuing support from investors, customers, suppliers, and the commitment of our employees.

Sincerely,


Theodore W. Myers
Chairman of the Board


Leonard S. Yurkovic
Acting CEO



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FINANCIAL HIGHLIGHTS

	Fiscal Year Ended				
	12/31/09	12/31/08	12/31/07	12/31/06	12/31/05
<i>(Dollars in thousands, except share and per share data)</i>					
Statement of Operations:					
Net sales	\$ 9,243	16,700	21,448	17,788	16,676
Operating loss	\$ (1,138)	(573)	(561)	(239)	(172)
Operating margin	-12.3%	-3.4%	-2.6%	-1.3%	-1.0%
Income (loss) from continuing operations before income taxes	\$ (1,022)	(234)	(92)	449	301
Interest expense	\$ -	1	1	1	1
EBIT from continuing operations	\$ (1,022)	(233)	(91)	450	302
Depreciation expense	\$ 93	129	109	104	90
EBITDA from continuing operations	\$ (929)	(104)	18	554	392
Income (loss) from continuing operations	\$ (531)	(687)	341	468	208
Income from discontinued operations, net of income taxes	\$ -	-	-	-	990
Net income (loss)	\$ (531)	(687)	341	468	1,198
Basic earnings (loss) per share:					
Income (loss) from continuing operations	\$ (0.33)	(0.28)	0.12	0.14	0.05
Income from discontinued operations	\$ -	-	-	-	0.24
Net income (loss)	\$ (0.33)	(0.28)	0.12	0.14	0.29
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	\$ (0.33)	(0.28)	0.12	0.14	0.05
Income from discontinued operations	\$ -	-	-	-	0.24
Net income (loss)	\$ (0.33)	(0.28)	0.12	0.14	0.29
Balance Sheet:					
Current assets	\$ 8,216	10,331	17,842	16,370	22,134
Current liabilities	\$ 2,269	3,356	5,802	4,296	5,337
Working capital	\$ 5,947	6,975	12,040	12,074	16,797
Current ratio	3.62	3.08	3.08	3.81	4.15
Total assets	\$ 8,413	10,618	18,316	16,752	22,596
Total long-term debt	\$ -	-	-	-	-
Total stockholders' equity	\$ 5,959	7,005	12,253	12,428	17,066
Total capitalization	\$ 5,959	7,005	12,253	12,428	17,066
Average return on equity	-8.2%	-7.1%	2.8%	3.2%	5.9%
Average return on investment	-8.2%	-7.1%	2.8%	3.2%	5.9%
Other Information:					
Book value per share	\$ 3.81	3.92	4.42	4.32	4.82
Shares of common stock outstanding	1,564,310	1,786,229	2,769,192	2,873,891	3,539,019
Basic - weighted average shares outstanding	1,617,535	2,466,378	2,791,945	3,307,382	4,073,252
Diluted - weighted average shares outstanding	1,617,535	2,466,378	2,791,945	3,311,755	4,118,594
Orders	\$ 8,205	13,712	23,450	16,802	18,080
Backlog of orders	\$ 3,908	4,946	7,934	5,932	6,918



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