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PARAGON
TECHNOLOGIES

ANNUAL REPORT
December 31, 2002





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 — and our joint venture under the SI/BAKER brand. Our strategy is to leverage each brand to enhance and further strengthen the others, as well as the whole.

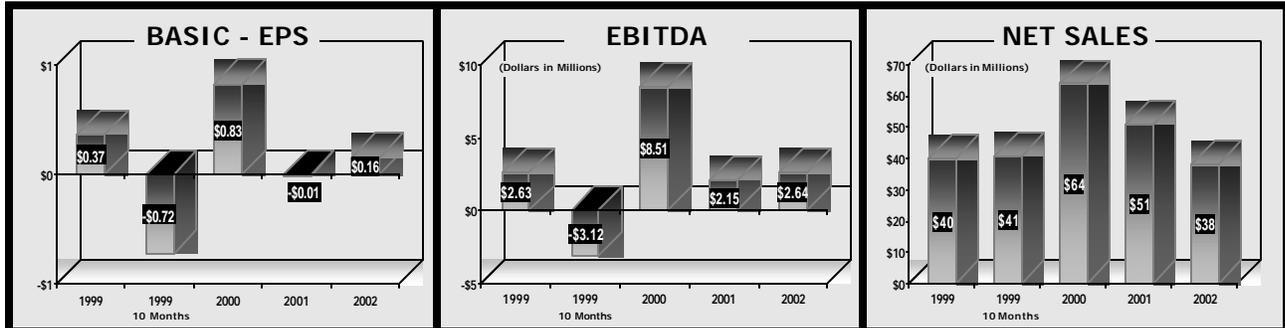
Ermanco — sortation, accumulation, and innovation. No name in the industry means more in the areas of accumulation and sortation technologies. Ermanco has a strong reputation for efficient, high-performance material handling components and creating new technologies that have quickly become industry standards. 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[®], CARTRAC[®], and DISPEN-SI-MATIC[™] 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.

SI/BAKER — in a unique marketplace, it's just what the doctor ordered. As America ages, prescription drug volumes are skyrocketing, while the number of pharmacists fails to even remotely keep up. Positioned perfectly to help remedy this problem is our joint venture, SI/BAKER. The company's integration skills and technologies enable large drug chains to establish "central fill" operations at remote locations, speeding and streamlining the process at their retail outlets. Mail order prescriptions and other applications benefit from SI/BAKER technology as well.



FINANCIAL HIGHLIGHTS



(Dollars in thousands, except share and per share data)	Fiscal Year Ended			10 Months Ended	Fiscal Year Ended
	12/31/02	12/31/01	12/31/00	12/31/99	2/28/99
Statement of Operations:					
Net sales	\$ 38,224	50,752	64,306	41,108	39,573
Operating income (loss)	\$ 1,216	(198)	6,176	(4,074)	1,883
Operating margin	3.2%	-.4%	9.6%	-9.9%	4.8%
Earnings (loss) before income taxes	\$ 930	(319)	5,713	(4,174)	2,234
Interest expense.....	\$ 1,046	1,298	1,633	444	20
EBIT	\$ 1,976	979	7,346	(3,730)	2,254
Depreciation expense.....	\$ 661	706	648	369	361
Amortization expense (excluding write-off of intangible assets).....	\$ -	468	514	242	12
EBITDA	\$ 2,637	2,153	8,508	(3,119)	2,627
Net earnings (loss).....	\$ 663	(62)	3,480	(2,780)	1,378
Basic earnings (loss) per share.....	\$.16	(.01)	.83	(.72)	.37
Diluted earnings (loss) per share	\$.15	(.01)	.82	(.73)	.36
Balance Sheet:					
Current assets	\$ 15,444	19,200	22,850	21,686	20,606
Current liabilities.....	\$ 9,472	13,388	15,193	16,311	11,205
Working capital.....	\$ 5,972	5,812	7,657	5,375	9,401
Current ratio.....	1.63	1.43	1.50	1.33	1.84
Total assets.....	\$ 36,703	41,343	45,917	45,406	23,580
Total long-term debt.....	\$ 7,263	9,900	12,780	15,451	16
Total stockholders' equity.....	\$ 17,829	16,881	16,980	13,425	12,147
Total capitalization.....	\$ 25,092	26,781	29,760	28,876	12,163
Average return on equity	3.8%	-.4%	22.9%	-21.7%	11.7%
Average return on investment	2.6%	-.2%	11.9%	-13.5%	11.7%
Other Information:					
Book value per share	\$ 4.19	4.00	4.05	3.21	3.28
Cash flow from operations per basic weighted average share outstanding.....	\$.84	.22	1.21	2.18	.89
Cash dividends per share.....	\$ -	-	-	.10	.10
Shares of common stock outstanding	4,256,098	4,221,635	4,194,869	4,184,878	3,705,048
Basic - weighted average shares outstanding.....	4,231,878	4,210,819	4,189,874	3,835,718	3,718,887
Diluted - weighted average shares outstanding	4,300,193	4,210,819	4,207,644	3,852,211	3,757,330
Backlog of orders	\$ 6,924	13,342	22,913	23,685	19,884

PARAGON TECHNOLOGIES IS STRONGLY POSITIONED TO CAPITALIZE ON IMPROVING MARKETS

Although 2002 was a difficult year for the economy, Paragon Technologies has strongly positioned itself for improved performance going forward. During the year, your Company made important investments in key areas, such as product development as well as sales and marketing. These initiatives, coupled with aggressive cost-reduction efforts, give us an optimistic view about our future. Management remains very focused on the material handling needs of our customers and believes these efforts will result in greater growth in revenues and profitability as the economic environment improves.

General and market-specific economic conditions deteriorated in 2002, tightening the market for capital equipment and related services as well as delaying expenditures on material handling projects. As a result, sales were \$38.2 million in 2002, compared to \$50.8 million in 2001. Net earnings for 2002 improved to \$663,000 from a net loss of \$62,000 in 2001. Basic earnings per share for 2002 rose to \$.16 versus a basic loss per share of \$.01 for 2001. The improved earnings were no accident. They were the direct result of the initiatives stated earlier.

Other key financial milestones include the following:

- Our current ratio rose to 1.63 from 1.43 at the beginning of the year, while inventory decreased by approximately \$1 million.
- Our cash, including restricted cash, rose to \$6.25 million, and our working capital increased to approximately \$6 million.
- During 2002, we repaid \$3.5 million of our bank debt, including a \$1.2 million prepayment, and our long-term debt to capitalization ratio was reduced to 29% from 37% at the beginning of the year.
- During February 2003, we sold our Easton, PA facility for \$2.9 million and prepaid \$1.4 million of our bank debt, thereby reducing the balance of our bank debt to \$4.3 million, of which \$1.3 million was escrowed.

New products introduced during the year by both brands include:

Ermanco

- NBS 90-SP[®], an addition to our sortation capabilities for small items, achieves sortation rates exceeding 120 products per minute.
- NBA-23[™] accumulation conveyor with patent-pending features for quiet, reliable operation.
- CRUZcontrol[™] accumulation logic package is standard on NBA-23 and also available on Xenorol[®] conveyors.

SI Systems

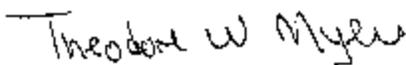
- DISPEN-SI-MATIC[™] traveling dispenser technology for medium volume order picking.
- DISPEN-SI-MATIC[™] enhanced output features increasing order volume from 800 orders per hour to over 2,600 orders per hour.
- Recently, we received an initial order for our new optimizer software, which will enable distribution center customers to be more efficient.

Our SI/BAKER 50/50 joint venture with McKesson paid a \$400,000 dividend to Paragon in the fourth quarter of 2002, and continues to enjoy a strong balance sheet. Early quotation and order activity for 2003 is very encouraging.

Both management and the Board of Directors are clearly focused on continuing to increase shareholder value and, as such, any and all options will be examined to accomplish our goal. In the area of corporate governance, we take our responsibility seriously and compliance with all regulatory guidelines is a must.

We appreciate your continued support and trust and look forward to the coming year.

Sincerely,



Theodore W. Myers
Chairman of the Board



William R. Johnson
President and CEO

INSIDE PARAGON

Ermanco Expands Its Position As "Accumulation And Sortation Experts" SI Systems Expands Its Prospects As "Performance And Throughput Experts"



New technologies continue to play an increasing role in the expansion of business at Ermanco. First introduced in 2001, Ermanco's NBS® Narrow Belt Sorters have quickly become distribution industry must-haves, because of their efficient and cost-effective

performance. With an installed base of almost 100 sorters in less than two years, Ermanco added to this

technology by developing the NBS 90-SP®, a sortation system that handles today's smaller products at higher rates. In order to further penetrate the distribution market, Ermanco developed the NBA-23™ narrow belt accumulation conveyor, designed to provide

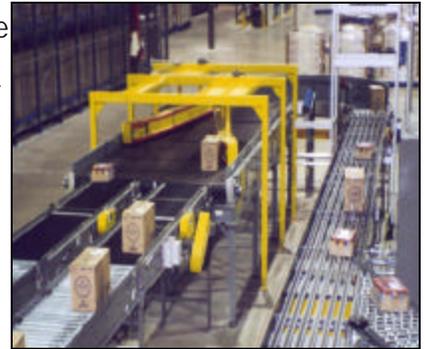
unmatched reliability and simplicity for our customers. To this, we added our newest

accumulation logic package, CRUZcontrol™. This cost-effective, electronic control system is a standard feature of NBA-23 and has been integrated into a variety of Ermanco technologies, such as XenoROL®. These breakthrough innovations have had an immediate impact on our business and will allow us to increase market share for years to come.

With the addition of these new technologies, Ermanco is able to provide the necessary building blocks to automate an entire distribution center, the core of our business today.



They allow us to recruit larger and more successful system integrators as business partners who have come to depend on Ermanco not only as a conveyor hardware supplier, but also for our technical expertise in selecting and applying the best technology. This is true whether the application is in distribution, order fulfillment, work-in-process or manufacturing. Quality continues to be one of the key attributes, allowing us to offer the best equipment warranty in the industry.



We are actively searching for and developing new markets and sales channels that are necessary to increase our market presence — markets that are counter-cyclical to each other. We are continuing to develop strong relationships with Fortune 1000 companies who have multiple manufacturing sites and numerous distribution centers. These are the customers that are able to provide us with a steady stream of business.

Ermanco continues to expand its role as a solution provider, creating total systems that operate in the most efficient and cost-effective way possible. We are taking maximum advantage of our history of innovation, service, and attention to details.



Relationships with existing customers — long a hallmark of SI Systems — grew and strengthened during the year. Several long-time users of SI Systems' DISPEN-SI-MATIC™ and

LO-TOW® systems evaluated their past performance and future expectations and made capital investments in the expansion of these systems. These expansion efforts are a reflection of our customers' overall satisfaction with SI Systems, our technologies, and performance and commitment to customer service. Their testimonials were also a factor in our success in adding new customers who purchased SI Systems' branded solutions.

INSIDE PARAGON

Organizational changes to SI Systems' sales management and regional sales team nearly doubles our level of experience in Automated Order Selection systems. Coincident with the expansion of our sales organization, is a concerted effort to expand our marketing activities to reach our existing and prospective customers more efficiently and effectively. For example, you will notice improvements in our marketing material, capabilities presentation, and web site. We encourage all shareholders to visit our web site at www.paragontechnologiesinc.com.



Innovations in software engineering and design have been rewarded with the sale of our first application for a new software program designed to analyze warehouse and order selection activities, enabling our customers' operations personnel to become more efficient and "smarter." Designed to optimize a wide range of Order Picking systems and technologies, this software program is unique in our industry, has broad-reaching applications, and will be operational during the second half of 2003.

Attention to component and systems/process redesign has led to improved systems capabilities and performance, while maintaining our focus on cost-reduction initiatives. Similar investments in research and development activities and product design are producing results, with systems having dramatically increased order volume — from 800 orders per hour to over 2,600 orders per hour. A key factor in this success involves rapidly indexing empty totes in and out of loading stations.



Continuing evolution in the technology initially developed for the robotic Automated Picking and Replenishment system, installed at BMG Music, is being incorporated into the new SI Systems' Traveling Head Dispenser system. This technology expands the application for the Traveling Head Dispenser to better reliability and higher throughput for both existing and new sites. The precision positioning of the motion control system, in conjunction with other engineering innovations, make it possible to incorporate from 25% to 50% more customer stock items and storage lanes in the same footprint as with fixed dispensers.

SI Systems' ongoing commitment to continuous improvement is expected to lead to enhancements in our systems' capabilities and product performance for the benefit of all of our customers - present and future.



SI/BAKER, INC., Paragon's 50/50 joint venture with McKesson Automation, is a leading supplier of automated prescription fulfillment systems for high volume pharmacies. Today, more than ever, the healthcare marketplace is impacted by aging demographics, rising healthcare costs, shortages of pharmacists, and increasing prescription volumes. SI/BAKER's innovative system solutions are an essential element in creating accurate and efficient pharmacy systems that provide its customers with high quality prescription services and improved customer service.

A commitment to innovation and a dedicated team of experienced, solutions-oriented automation professionals has been a driver behind the success of SI/BAKER. With a focus on one market's needs and a strength in prescription fulfillment, SI/BAKER's development efforts have led to advancements in pharmacy system technologies associated with dispensing and packaging automation, digital imaging, and pharmacist verification.

SI/BAKER's creativity in pharmacy system design continues to attract new orders from existing and new customers. With an emphasis on the importance of customer relationships, SI/BAKER remains committed to successful implementation of pharmacy systems that deliver value, speed, and quality for its customers.

OFFICERS

William R. Johnson
President and CEO
Paragon Technologies, Inc.

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

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

DIRECTORS

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

L. Jack Bradt
Founder, former Chairman and CEO
of SI Handling Systems, Inc.
Former Northampton County Human Services Director
Former Entrepreneur in Residence at Lehigh University

Gilman J. Hallenbeck
Chairman, Street Lighting Equipment Corporation
Owner of Bolt Electric Company,
NUJA Realty Corporation, and Asbury Leasing Company
Former Chairman of Area Lighting Research, Inc.

William R. Johnson
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Leon C. Kirschner
President, Ermanco Incorporated
Chief Operating Officer, Paragon Technologies, Inc.
Director, Terrace Food Group, Inc.

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

Steven Shulman
Principal, The Hampton Group
Managing Director, Latona Associates, Inc.
Chairman, Terrace Food Group, Inc.
Director of C3i Inc., The General Chemical Group Inc.,
Transportation Technologies, Inc.,
and Beacon Capital Partners, Inc.

Leonard S. Yurkovic
Vice Chairman of the Board, Paragon Technologies, Inc.
Former President and CEO of SI Handling Systems, Inc.

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*The Performance and
Throughput Experts*



PARAGON
TECHNOLOGIES

We Build Productivity



*The Sortation and
Accumulation Experts*



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