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ANNUAL REPORT
December 31, 2006





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.

LETTER TO STOCKHOLDERS

Dear Stockholders:

During 2006, the Company's earnings per share from continuing operations increased to \$0.14 from \$0.05 in the prior year, reflecting the combination of increased net income and the positive effect on earnings per share from the Company's stock repurchase program. The Company increased its gross profit, as a percent of sales, from 27% in 2005 to 30% in 2006, with a 7% year-to-year increase in sales.

The Company quadrupled its product development effort during 2006 with heavy emphasis on warehouse control software, keeping focus on its core competencies in the many markets it serves. The SYNTHESIS™ Software Suite, comprised of eight proprietary software groups and 26 extendible modules, is increasingly optimizing solutions for our customers. Looking forward, we anticipate that the software effort will become a more meaningful part of the Company's future. The Company has a well-established position in multiple order fulfillment markets including, but not limited to, health and beauty aids, entertainment, and service of a wide range of retail distribution needs.

The ergonomic vehicle offerings in the production and assembly markets have given the Company a leadership position in the manufacture of products that range from motorcycles, lawn mowers, and golf carts to car engines and other assembled products.

New order and quoting rates continue to rise with the lower year-end backlog of orders significantly accelerating with the booking of \$7.8 million of orders in the first quarter of 2007. As is typical for the business, quarterly swings in the booking of large new orders and the subsequent spread of revenue recognized point to a multiple-quarter look at the Company's profitability. The pipeline with new potential customers has been rapidly expanding, and the recent booking of large orders from past satisfied customers indicates a high probability of increased sales during the upcoming year.

The Company continues to pursue opportunities to grow the business organically, coupled with alliances and complementary partnerships that enhance the technology base of the business. Of particular interest are potential acquisitions and joint ventures that can minimize the cyclical aspects of the business and propel the Company into new markets, while simultaneously providing a broader platform for future growth.

We remain on track with our corporate goal of always meeting or exceeding our customer's expectations. We view our high quality customers as stakeholders, along with our stockholders, our employees, and our suppliers. It is the nurturing and appreciation of these constituents that has served the Company well during its 49-year history.

L. Jack Bradt, who founded the Company and served as a board member since its inception in 1958, will retire from the Board of Directors at this year's Annual Meeting of Stockholders. Jack has devoted his entire career to this Company, and his vision and persistence created the foundation for the high respect that the Company now enjoys in the markets it serves. Words cannot adequately express our thanks and appreciation to Jack Bradt for his lifetime contribution.

Sincerely,



Theodore W. Myers
Chairman of the Board



Leonard S. Yurkovic
Acting CEO



FINANCIAL HIGHLIGHTS

	Fiscal Year Ended				
	12/31/06	12/31/05	12/31/04	12/31/03	12/31/02
<i>(Dollars in thousands, except share and per share data)</i>					
Statement of Operations:					
Net sales	\$ 17,788	16,676	11,702	12,083	14,906
Operating income (loss)	\$ (239)	(172)	(449)	(236)	1,700
Operating margin	-1.3%	-1.0%	-3.8%	-2.0%	11.4%
Income (loss) from continuing operations before income taxes	\$ 449	301	(271)	6,034	1,376
Interest expense	\$ 1	1	4	676	1,046
EBIT from continuing operations	\$ 450	302	(267)	6,710	2,422
Depreciation expense	\$ 104	90	104	139	233
EBITDA from continuing operations	\$ 554	392	(163)	6,849	2,655
Income (loss) from continuing operations	\$ 468	208	(165)	3,685	956
Income (loss) from discontinued operations, net of income taxes	\$ -	990	1,638	100	(293)
Net income	\$ 468	1,198	1,473	3,785	663
Basic earnings (loss) per share:					
Income (loss) from continuing operations	\$ 0.14	0.05	(0.04)	0.87	0.23
Income (loss) from discontinued operations	\$ -	0.24	0.38	0.02	(0.07)
Net income	\$ 0.14	0.29	0.34	0.89	0.16
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	\$ 0.14	0.05	(0.04)	0.85	0.22
Income (loss) from discontinued operations	\$ -	0.24	0.38	0.02	(0.07)
Net income	\$ 0.14	0.29	0.34	0.87	0.15
Balance Sheet:					
Current assets	\$ 16,370	22,134	14,249	14,720	15,444
Current liabilities	\$ 4,296	5,337	7,355	9,583	9,416
Working capital	\$ 12,074	16,797	6,894	5,137	6,028
Current ratio	3.81	4.15	1.94	1.54	1.64
Total assets	\$ 16,752	22,596	33,424	33,803	36,703
Total long-term debt	\$ -	-	-	-	7,263
Total stockholders' equity	\$ 12,428	17,066	23,308	22,061	17,885
Total capitalization	\$ 12,428	17,066	23,308	22,061	25,148
Average return on equity	3.2%	5.9%	6.5%	19.0%	3.8%
Average return on investment	3.2%	5.9%	6.5%	16.0%	2.6%
Other Information:					
Book value per share	\$ 4.32	4.82	5.46	5.16	4.20
Shares of common stock outstanding	2,873,891	3,539,019	4,265,310	4,277,595	4,256,098
Basic - weighted average shares outstanding	3,307,382	4,073,252	4,278,065	4,269,274	4,231,878
Diluted - weighted average shares outstanding	3,311,755	4,118,594	4,350,297	4,364,712	4,300,193
Orders	\$ 16,802	18,080	13,164	11,301	12,074
Backlog of orders	\$ 5,932	6,918	5,514	4,052	4,834

INSIDE PARAGON

Delivering Innovation and Exceeding Expectations



SI Systems' LO-TOW® towline conveyor and CARTRAC® spinning tube conveyor systems technologies, introduced to the marketplace in the 1960s, have been time-tested and proven in over 1,200 customer applications. These workhorse technologies continue to provide Fortune 100 companies, such as Caterpillar, Harley-Davidson, Honda, John Deere, and many others with ergonomically designed assembly conveyor systems that generate productivity gains. These Production & Assembly Systems' core technologies, which are configured into innovative solutions and combined with advanced computer controls, are being chosen by a growing customer base.



SI Systems' market-leading position is recognized by a cadre of companies that manufacture a variety of transportation, recreational, and utility vehicles. Vendor companies that manufacture and supply subassemblies, such as engines, axles, transmissions, dashboards, and door panels are also discovering the significant benefits derived by progressive assembly conveyor systems provided by SI Systems.

Our customers have come to rely on and trust our technologies and solutions. We have leveraged this brand trust to provide multiple systems for customers as their business expands and new factories are built or existing ones modified.



By focusing on our customer's operational requirements and effectively addressing these needs, we continue to exceed their expectations while developing long-term business relationships. These business relationships have earned SI Systems industry-wide recognition as a leading automated systems solution provider and form the foundation for our competitive advantage.



INSIDE PARAGON

New Possibilities — New Opportunities



For nearly 50 years, SI Systems has maintained an unmatched reputation in the material handling industry as a leading provider of automated high-tech, high-speed split case order fulfillment systems. SI Systems' Order Fulfillment advanced automated piece-picking technologies, combined with its SYNTHESIS™ Software Suite of intelligent control systems, provide the foundation for achieving significant growth, while serving established retailers and recognized consumer brands.



SI Systems' rich heritage of providing value-based solutions for order fulfillment and distribution operations positions it well for emerging opportunities for companies looking for specialized systems integrators. The Company's approach to develop process integration engineered solutions, which are tailored to each new client and application, gives it unique capabilities toward best serving its client needs.



SYNTHESIS™, the Company's proprietary software component, powers its order fulfillment systems solutions. These extendible software modules interface with and complement our customer's enterprise planning systems. Interfacing with the Warehouse Management System (WMS), SYNTHESIS™ provides centralized information management for data collection and analysis.



Customers today are demanding distribution center solutions that streamline the flow of orders through their facility while maintaining speed of delivery to its customers with zero errors. This translates to speed, agility, flexibility, and accuracy in our drive to search for new and better ways to meet emerging material handling challenges.



This vision to continually see beyond the "what is" and reach for the "what if" is part of the tradition and legacy of SI Systems and will provide the fuel for future growth.

OFFICERS

Leonard S. Yurkovic
Acting CEO
Paragon Technologies, Inc.

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

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

Anthony W. Schweiger
President and CEO, The Tomorrow Group, LLC
Chairman and Managing Principal, e-brilliance, LLC
Director, Radian Group Inc.

Robert J. Blyskal
Former President and Chief Operating
Officer, GSI Commerce, Inc.

Samuel L. Torrence
President and Chief Operating Officer,
Just Born, Inc.

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

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

Stock Listing
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