To the Shareholders of Paragon Technologies:

When I first joined the Board of Directors in the second half of 2010, I was very clear in my objectives for Paragon. The first immediate objective was cost reduction: in October 2010, Paragon's expenses were little changed from 2007 when the Company was generating over $20 million in sales, more than double the sales figure in 2010. We reduced costs and as a result, Paragon reported a profit in 2011 compared with a loss of over $1 million in 2010.

In March of 2012, I was unanimously appointed Chairman of the Board. Two new directors, Samuel Weiser and Jack Jacobs joined me on the Board replacing the outgoing four Board members. Both Sam and Jack are highly accomplished businessmen, but more importantly, both are exceptional people both inside and outside the board room.

Reinvigorated with a completely new Board, we quickly and carefully conducted a comprehensive review of the business, evaluated management and associates, and began a vigorous process of eradicating a culture defined by entitlement and creating a culture motivated by performance. As a direct result of those efforts we are now in a position to steer Paragon in a new direction with a singular focus: increasing the per share intrinsic value of the Company. This letter will outline our business principles that we will employ to run Paragon.

A successful value-creating business, in our view, is one ingrained with a culture of performance. For such a corporate culture to flourish, a business should have (a) a strong and ethical management team; (b) a low cost structure; (c) a consistently strong balance sheet; (d) an intense focus on maximizing intrinsic value per share; and (e) the passion to execute on that focus.

Ultimate Objective: Maximizing Intrinsic Value per Share

The intrinsic value of any business is calculated by taking the sum of all cash flows into and out of the business and then discounting those cash flows by an appropriate interest rate. Operating under the mandate of maximizing per share intrinsic value is important because that maximization ultimately leads to growth in shareholder value. Our focus on intrinsic value maximization is crucially important for one very distinct reason: earnings per share (EPS) growth does not necessarily lead to intrinsic value per share growth. Earnings, with very little managerial effort and without running afoul of the law, can be readily altered to produce EPS growth. For example, by simply offering its customers more liberal credit terms, a business can manufacture earnings growth. Purchases on credit create a legitimate sale and corresponding profit. Yet until such a profit is converted into cash flow upon collection of the corresponding receivable, there is no growth in intrinsic value.

The distinction between intrinsic value growth and earnings growth cannot be underestimated. To understand and focus on increasing intrinsic value requires nothing less than a complete shift in focus from the business status quo. Although Paragon's past management may have focused on earnings growth, going forward Paragon's financial mission will be to maximize free cash flow and return on invested capital.

As a byproduct of this mission, the intelligent allocation of capital is critical. Simply put, our capital must be allocated in a manner that seeks to maximize return on invested capital. To that end, Paragon has made some changes that will serve to ensure that both operational efficiency and disciplined capital allocation are the nucleus of our business. First, we created a holding company structure whereby Paragon is the parent and our material handling business SI Systems is our wholly owned subsidiary. Second, we have clearly defined the responsibilities of our most senior executives. All operating decisions of subsidiary companies will be made by the managements of those subsidiaries. Any and all capital allocation decisions will be made by the Board and me, your Chairman but more importantly the Company's largest shareholder. This clear articulation of responsibilities will ensure that we remain intensely focused in fulfilling our obligation to shareholders – the maximization of per share intrinsic value.

The single most important litmus test that shareholders should conduct when evaluating a company is to determine whether or not the management of that company has the same alignment of interests as the shareholders. Alignment of interests between shareholders and management is met when managers themselves are shareholders. Let me start with your Chairman: as of June 30, 2012, I beneficially own approximately 28% of Paragon's outstanding shares. Not a single share was acquired via an option grant or other compensatory means but all were purchased at or above prevailing market prices. My fortunes are 100% aligned with yours; I prosper when you prosper but more importantly I will equally feel any financial pain.

Our two other Directors, who joined the Board earlier this year, have already become shareholders. And the compensation structure of both our recently hired Chief Executive Officer and Chief Financial Officer was designed to ensure that their financial fortunes prosper when intrinsic value is increased. We will benefit with you, not at your expense.

Operational Review: 2011 versus 2010

Paragon Technologies reported a net profit of $191,000 in 2011 compared with a net loss of $1.054 million in 2010. The turn to profitability in 2011 was a result of higher gross margins and a reduction in SG&A expense. In 2009, SG&A expense was $3.5 million, or 38% of sales. By 2011, SG&A expense had been reduced by approximately 30% or $1 million, to $2.4 million. Yet as any experienced business operator understands, cost cuts are not a permanent path to profitability. In 2011, SG&A expense still constituted 29% of sales. Going forward, our Company will be managed in a very cost efficient manner but our future profitability requires revenue growth, specifically profitable revenue growth. Our intermediate and long-term goals consist of addressing our current lines of business, ascertaining our product relevance in the marketplace, and developing a sound and efficient business plan focused on positioning us in markets where we can be a competitive material handling and fulfillment solutions provider.

As of December 31, 2011, Paragon's per share book value stood at $3.27 compared to $3.14 in 2010. As of June 30, 2012, per share book value stood at $3.14. In the long run, the change in Paragon's per share book value should come to serve as a useful measure of the performance of management. Over the past several years, however, we believe Paragon's book value has merely represented the value of the Company's current assets ascribing no value to the operation of the business.

Given the inconsistent track record of profitability that has plagued Paragon for years, it is explainable that little consideration is given to the business. But we are implementing significant changes that we believe, over time, will lead to a more accurate valuation of the Company, a valuation we currently believe is below intrinsic value. We are working vigorously in this pursuit. I will provide greater color and detail on our operational endeavors in our next annual letter which, for the reasons noted below, will be out around the mid-point of the year as opposed to the tail end of the year.

The Annual Meeting: An Important Change

For years, Paragon's annual meeting has been held in December of the subsequent year. Paragon's fiscal year ends on December 31, so to have the annual meeting twelve months later to discuss the Company's financial results for the prior year is ineffective and does not serve shareholders well.

This will be the final year that we have an annual meeting in December. The Annual Meeting/Shareholder Presentation will be held on **Friday, December 7, 2012 at 9:30 a.m. at the offices of our corporate counsel <u>Thompson Hine LLP, Two Alliance Center, 3560 Lenox Road, Suite 1600, Atlanta, GA 30326</u>.** Once inside the Alliance Center, please follow the appropriate signage to the annual meeting.

Our desire to hold the meeting in Atlanta was that it would make for easier same day travel for our shareholders and Company associates.

We will start the meeting with a Company presentation to be followed by a Q&A session.

Beginning in 2013, Paragon's Annual Meeting will occur sometime during the mid-point of the year, ideally in May or June. You will be notified as soon as we have our annual report ready.

Sincerely,

Sham Gad
Chairman of the Board

October 30, 2012