



PARAGON
TECHNOLOGIES

LETTER TO STOCKHOLDERS

Dear Stockholders:

Although general and market-specific economic conditions deteriorated in 2008 causing our financial results to fall below our expectations, we have maintained a very strong balance sheet, with a strong cash position and no long-term debt while making significant stock repurchases.


Despite the tough economy, our pre-tax profits for 2008 were approximately breakeven, excluding employee severance costs and the write-off of an uncollectible receivable.

The year 2009 is certainly an economic struggle, and we have adjusted our operations accordingly through personnel reductions, across-the-board salary and fringe benefit reductions, and furloughs. The actions that we have recently taken play an important role on our financial results as we continue to make careful investments in product development.

Although the timing of a full market recovery is uncertain, we expect that an improving economy will eventually cause a resurgence in orders as we remain very focused on the material handling needs of our customers.

We feel that we have the technology, the employees, the capacity, and the capability to respond rapidly to improving economic conditions. We believe that our talented people and technologies will enable us to weather the challenging markets and the difficult economic times.

Sincerely,



Theodore W. Myers
Chairman of the Board



Leonard S. Yurkovic
Acting CEO



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FINANCIAL HIGHLIGHTS

	Fiscal Year Ended				
	12/31/08	12/31/07	12/31/06	12/31/05	12/31/04
<i>(Dollars in thousands, except share and per share data)</i>					
Statement of Operations:					
Net sales	\$ 16,700	21,448	17,788	16,676	11,702
Operating income (loss)	\$ (573)	(561)	(239)	(172)	(449)
Operating margin	-3.4%	-2.6%	-1.3%	-1.0%	-3.8%
Income (loss) from continuing operations before income taxes	\$ (234)	(92)	449	301	(271)
Interest expense	\$ 1	1	1	1	4
EBIT from continuing operations	\$ (233)	(91)	450	302	(267)
Depreciation expense	\$ 129	109	104	90	104
EBITDA from continuing operations	\$ (104)	18	554	392	(163)
Income (loss) from continuing operations	\$ (687)	341	468	208	(165)
Income (loss) from discontinued operations, net of income taxes	\$ -	-	-	990	1,638
Net income (loss)	\$ (687)	341	468	1,198	1,473
Basic earnings (loss) per share:					
Income (loss) from continuing operations	\$ (0.28)	0.12	0.14	0.05	(0.04)
Income from discontinued operations	\$ -	-	-	0.24	0.38
Net income (loss)	\$ (0.28)	0.12	0.14	0.29	0.34
Diluted earnings (loss) per share:					
Income (loss) from continuing operations	\$ (0.28)	0.12	0.14	0.05	(0.04)
Income from discontinued operations	\$ -	-	-	0.24	0.38
Net income (loss)	\$ (0.28)	0.12	0.14	0.29	0.34
Balance Sheet:					
Current assets	\$ 10,331	17,842	16,370	22,134	14,249
Current liabilities	\$ 3,356	5,802	4,296	5,337	7,355
Working capital	\$ 6,975	12,040	12,074	16,797	6,894
Current ratio	3.08	3.08	3.81	4.15	1.94
Total assets	\$ 10,618	18,316	16,752	22,596	33,424
Total long-term debt	\$ -	-	-	-	-
Total stockholders' equity	\$ 7,005	12,253	12,428	17,066	23,308
Total capitalization	\$ 7,005	12,253	12,428	17,066	23,308
Average return on equity	-7.1%	2.8%	3.2%	5.9%	6.5%
Average return on investment	-7.1%	2.8%	3.2%	5.9%	6.5%
Other Information:					
Book value per share	\$ 3.92	4.42	4.32	4.82	5.46
Shares of common stock outstanding	1,786,229	2,769,192	2,873,891	3,539,019	4,265,310
Basic - weighted average shares outstanding	2,466,378	2,791,945	3,307,382	4,073,252	4,278,065
Diluted - weighted average shares outstanding	2,466,378	2,791,945	3,311,755	4,118,594	4,350,297
Orders	\$ 13,712	23,450	16,802	18,080	13,164
Backlog of orders	\$ 4,946	7,934	5,932	6,918	5,514

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

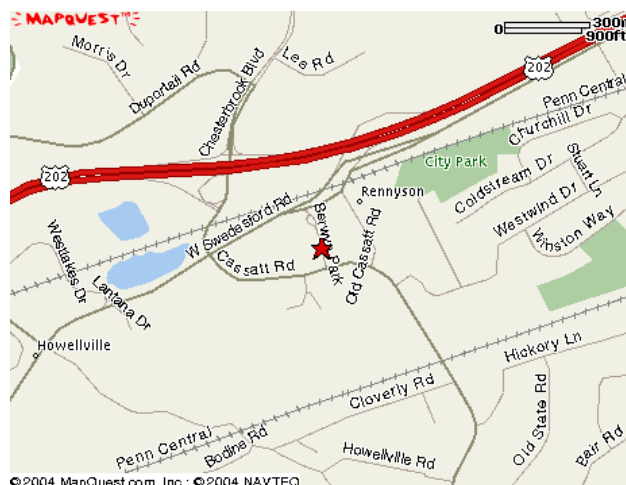
Take I-476 (Blue Route) North to Exit 16-B/I-76 (Schuylkill Expressway) West. Follow directions from Philadelphia and Points East, above.

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.





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