QUARTERLY REPORT
FOR THE PERIOD ENDED
MARCH 31, 2018

PARAGON TECHNOLOGIES, INC.

101 Larry Holmes Drive, Suite 500
Easton, PA 18042
Telephone: 610-252-3205
Fax: 610-252-3102

I.R.S. Employer Identification No.	CUSIP No.
22-1643428	69912T108

<u>ISSUER'S EQUITY SECURITIES</u>

COMMON STOCK

$1.00 Par Value

20,000,000 Common Shares Authorized

**1,694,745 Shares Issued and Outstanding
as of the Filing of this Quarterly Report**

PARAGON TECHNOLOGIES, INC.
Quarterly Report
For the Period Ended March 31, 2018

1) Name of the Issuer and its predecessors (if any):

The name of the issuer is Paragon Technologies, Inc. ("Paragon" or the "Company").

2) Address of the Issuer's principal executive offices:

Company Headquarters
Paragon Technologies, Inc.
101 Larry Holmes Drive, Suite 500
Easton, PA 18042
Phone: (610) 252-3205
E-Mail: info@pgntgroup.com
Website(s): www.pgntgroup.com

IR Contact
Paragon Technologies, Inc.
101 Larry Holmes Drive, Suite 500
Easton, PA 18042
Phone: (706) 549-7141
E-Mail: ir@pgntgroup.com
Website(s): www.pgntgroup.com

3) Security Information:

Trading Symbol: PGNT
Exact title and class of securities outstanding: Common Stock
CUSIP: 69912T108
Par Value: $1.00 per share
Total shares authorized: 20,000,000
Total shares outstanding: 1,694,745

Transfer Agent
Regular Mail
Broadridge Shareholder Services
c/o Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717-0718
Or
Overnight Mail
Broadridge Shareholder Services
c/o Broadridge Corporate Issuer Solutions
1155 Long Island Avenue
Edgewood, NY 11717-8309
ATTN: IWS
Toll-free: (877) 830-4936
Toll: (720) 378-5591

Is the Transfer Agent registered under the Exchange Act: Yes: ☑ No: ☐

List any restrictions on the transfer of security:
None

Describe any trading suspension orders issued by the SEC in the past 12 months:
None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months.

On October 17, 2016, Ark Investments, LLC was formed as a wholly owned subsidiary of Paragon Technologies, Inc. and had no activity during the year ended December 31, 2016. On March 1, 2017, Ark Investments, LLC acquired SED International de Colombia, S.A.S. (SEDC), a Colombian based company, for a purchase price of $1,395,000. SEDC distributes computer and technology systems in Colombia and Latin America. The Company purchased all the outstanding capital stock with cash. There is a minority interest in SEDC of (twenty) 20 percent owned by Ronell Rivera / El-Gibhor International LLC.

On December 11, 2017, Ohana Home Services, LLC was formed as a wholly owned subsidiary of Paragon Technologies, Inc. In December 2017, Paragon acquired residential real estate for $750,000 and in January 2018, transferred title to Ohana for no consideration. In January 2018, Ohana acquired a second similar residential property for $750,000.

4) Issuance History:

On January 23, 2018, a stock grant of 10,000 shares was made to an employee of the Company. The shares are unregistered and restricted under securities laws.

5) Financial Statements:

The financial statements for the three months ended March 31, 2018 are incorporated by reference and can be found at the end of this Quarterly Report. The financial statements as of and for the period ended March 31, 2018 include: (1) consolidated balance sheets, (2) consolidated statements of operations, (3) consolidated statements of comprehensive income, (4) consolidated statements of stockholders' equity, (5) consolidated statements of cash flows, and (6) notes to consolidated financial statements.

6) Describe the Issuer's Business, Products, and Services:

A. Description of the issuer's business operations:

Business

Paragon Technologies, Inc. ("Paragon" or the "Company"), is a holding company owning subsidiaries that engage in diverse business activities including material handling, distribution, real estate, and investments.

Automation and Material Handling

Our material handling operations are operated through our subsidiary, SI Systems, LLC. SI provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. SI Systems' capabilities include horizontal conveyance and transportation, rapid dispensing and for order fulfillment, automatic document inserting system, a full suite of high performance Warehouse Execution Systems (WES), Warehouse Management Systems (WMS) and Warehouse Control Systems (WCS) software systems and aftermarket services. SI Systems' automated material handling systems are used by manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government.

SI Systems is brought to market as two individual brands, SI Systems' Dispensing and Towline. The Dispensing business focuses on providing order fulfillment systems to distribution operations, including Dispen-SI-matic®, Mobile-Matic® (a patented product), Doc-U-spense™ automatic document inserting system and our full suite of Warehouse Execution Systems, Warehouse Management Systems and Warehouse Control Systems software solutions with our SI-IWS™

6) Describe the Issuer's Business, Products, and Services: *(Continued)*

A. Description of the issuer's business operations: *(Continued)*

Automation and Material Handling *(Continued)*
product. These systems are sold primarily through a nationwide network of authorized material handling integrators, dealers and direct to major OEM, end users and 3PL accounts. The Towline business focuses on providing automated material handling systems to manufacturing, assembly and distribution operations via our Lo-Tow® Towline horizontal conveyance and transportation technologies. These systems are sold primarily to end users.

SI Systems' business is largely dependent upon a limited number of large contracts with a limited number of customers. This dependence can cause unexpected fluctuations in sales volume. Various external factors affect the customers' decision-making process on expanding or upgrading their current production or distribution sites. Customers' timing and placement of new orders is often affected by factors such as the current economy, current interest rates, and future expectations. SI Systems believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes sales on a percentage of completion basis for its systems contracts, fluctuations in SI Systems' sales and earnings occur with increases or decreases in major installations.

SI Systems' branded products encompass the horizontal conveyance and transport and order fulfillment families of products.

SI Systems Lo-Tow® towline conveyor systems are utilized in the automation of manufacturing, assembly and unit load handling in the distribution center environments. Because the Lo-Tow® towline chain operates at a minimal depth, systems can be installed in existing one-story and multi-story buildings as well as newly constructed facilities. Industries served include the automotive, vehicle and large machinery manufacturing markets, distribution centers and U.S. government facilities.

SI Systems dispensing and order fulfillment systems are based on increasing customer profitability by reducing labor and floor space while increasing accuracy levels and the throughput and speed of order fulfillment to meet today's accelerated requirements. Product lines include:

- Dispen-SI-matic® Robotic A-Frame workstation system that provides benchmark setting levels for order fulfillment and the largest selection of model types in the industry.
- Mobile-Matic® (patented) mobile Robotic A-Frame system provides many of the key benefits of high speed order fulfillment, but in a smaller and scalable capacity.
- Doc-U-spense™ document insertion system which allows pre-printed coupons, instructions and documentation to be automatically added to orders accurately and labor-free. This system's modular construction allows organizations to cost-effectively add capacity and deploy rapidly.
- SI-IWS™ is a comprehensive suite of warehouse software designed to optimize material flow, labor and equipment utilization. The suite is comprised of a Warehouse Control System (WCS), Warehouse Management System (WMS) and Warehouse Execution System (WES) that allow organizations to match size, business model and requirements with the matching application requirements.

Industries served include e-commerce and omni-channel retailers, pharmaceutical, entertainment, vision, nutritional supplements, electronics, health and beauty aids, cosmetics, jewelry and an assortment of other various industries.

6) Describe the Issuer's Business, Products, and Services: *(Continued)*

A. Description of the issuer's business operations: *(Continued)*

Automation and Material Handling *(Continued)*
SI Systems provides spare and replacement parts and equipment for all its products, along with support contract services for its order fulfillment systems. A service group focused on R&R (Rejuvenation & Retrofit) of existing towline systems (regardless of the manufacturer) has been very successful.

Distribution
Our distribution operations are carried out through our subsidiary SED International de Colombia ("SED Colombia" or "SEDC"). SED Colombia currently distributes IT hardware products, from 27 top worldwide leading IT manufacturers such as Hewlett Packard, Lenovo, Dell, Asus, Epson and others.

SEDC business is divided into three main business units: Value, Transactional and Integrated Services. The Value business unit focuses on enterprise sales and business projects, typically selling more specialized products that usually carry higher margins. The top products distributed by our Value unit include servers, workstations, storage, networking and power protection systems.

SEDC Transactional business unit focuses on the consumer business (retail resellers) as well as run rate products for Value Added Resellers (VAR'S) selling to small and medium businesses (SMB). The top products distributed by the Transactional business unit include notebook computers, desktop computers, printers, TVs, audio/visual equipment, projectors and accessories.

In July 2017, SEDC launched the Integrated Services business unit. The services provided by the new business unit include business cloud services, managed services, professional IT services, infrastructure IT solutions and internet of things (IOT) solutions. The Integrated Services unit has also taken ownership of the extended warranties and maintenance agreement sales.

Real Estate
In December 2017, Ohana Home Services, LLC, a wholly owned subsidiary of Paragon, was established to acquire real estate for income and capital appreciation purposes. In December 2017, Paragon acquired residential real estate in Las Vegas, Nevada for $750,000. In January 2018, Paragon transferred title of the real estate to Ohana. There was no consideration exchanged between the parties. In January 2018, Ohana acquired a second similar residential property also in Las Vegas, Nevada for $750,000. Ohana intends to lease its real estate to generate positive cash flow for the foreseeable future and may seek to monetize its real estate holdings during favorable market conditions.

Investments
Paragon also invests in businesses and securities under the Investment Management Policy. The Investment Management Policy sets forth the parameters under which a portion of Paragon's cash balance may be invested in marketable securities, including U.S. Treasuries, equities of publicly traded companies, bonds, money market instruments and other securities. Investment decisions under the Investment Management Policy are made by Hesham Gad, Chairman and Chief Executive Officer. The Investment Management Policy sets forth restrictions on the investment of Paragon's funds, including an aggregate limit on Paragon's cash balance that is made available for investment, limits on the amount that may be invested in any single equity or fixed income position or certain categories of securities, prohibition of short-selling, margin trading and the use of leverage, requirements for the management of the investment account, and other Board-approval requirements.

B. Date and State (or Jurisdiction) of Incorporation:

The Company was originally incorporated in Pennsylvania on June 18, 1958 as SI Handling Systems, Inc.

On April 5, 2000, SI Handling Systems, Inc. changed its name to Paragon Technologies, Inc.

The Company changed its state of incorporation from Pennsylvania to Delaware on November 21, 2001.

C. The issuer's primary and secondary SIC Codes:

Primary SIC Code:	3530 AND 5045
Secondary SIC Code:	N/A

D. The issuer's fiscal year end date:

The Company's fiscal year end is December 31.

E. Principal products or services, and their markets:
See section 6A.

7) Describe the Issuer's Facilities:

Paragon Technologies, Inc.
101 Larry Holmes Drive, Suite 500
Easton, PA 18042

SI Systems leases a facility located at 101 Larry Holmes Drive in Easton, Pennsylvania. The area covered by the lease is 9,648 square feet. The leasing agreement requires fixed monthly payments of $13,000 through April 30, 2017 and $13,500 for the final thirty-six months through April 30, 2020, when the lease expires.

SI Systems believes that its Easton, Pennsylvania facility is adequate for its current operations. SI Systems operations experience fluctuations in workload due to the timing and receipt of new orders and customer job completion requirements. Currently, SI Systems facility is adequate to handle these fluctuations. In the event of an unusual demand in workload, SI Systems supplements its internal operations with outside subcontractors that perform services for SI Systems in order to complete contractual requirements for its customers. SI Systems will continue to utilize internal personnel and its own facility and, when necessary and/or cost effective, outside subcontractors to complete contracts in a timely fashion in order to address the needs of its customers.

SED Colombia leases a 32,000 square foot facility in Chia (Cundinamarca), Colombia. The center, located near Bogotá, the capital city of Colombia, serves as a sales and administrative office and distribution facility for SEDC. The lease expires in October 2018. The monthly payment is the equivalent of approximately $11,360.

SEDC also leases office space in Palmetto Bay, Florida for a monthly payment of $1,362 (the lease expires at the end of March 2019) and two apartments in Chia for use by its two members of the management team based out of Miami, Florida for an aggregate monthly payment of the equivalent of approximately $1,021. These leases expire in mid July 2018 and end of March 2019, respectively.

8) Officers, Directors, and Control Persons:

A. <u>Names of Officers, Directors, and Control Persons</u>.

Information concerning The Company's directors is as follows:

Name, Other Positions or Offices With the Company and Principal Occupation for Past Five Years	Director Since	Age
Hesham "Sham" M. Gad	2010	40
Hesham M. Gad has been Chief Executive Officer of the Company since June 2014, Chairman of the Company's Board of Directors since March 2012 and a director of the Company since October 2010. From 2013 to 2017 Mr. Gad served as Chairman and CEO of SED International Holdings, a multinational distributor of IT and computing products.		
Mr. Gad is also the author of the internationally published book, "The Business of Value Investing." Mr. Gad holds a B.A. in finance and an MBA in finance from the University of Georgia.		
Jack H. Jacobs	2012	72
Jack H. Jacobs has been a principal of The Fitzroy Group, Ltd., a firm that specializes in the development of residential real estate in London and invests both for its own account and in joint ventures with other institutions, for the past nine years. He has held the McDermott Chair of Politics at West Point since 2005 and has served as an NBC military analyst since 2002. Mr. Jacobs was a co-founder and Chief Operating Officer of AutoFinance Group Inc., one of the firms to pioneer the securitization of debt instruments, from 1988 to 1989; the firm was subsequently sold to KeyBank. He was a Managing Director of Bankers Trust Corporation, a diversified financial institution and investment bank, where he ran foreign exchange options worldwide and was a partner in the institutional hedge fund business.		
Mr. Jacobs' military career included two tours of duty in Vietnam where he was among the most highly decorated soldiers, earning three Bronze Stars, two Silver Stars and the Medal of Honor, the nation's highest combat decoration. He retired from active military duty as a Colonel in 1987. From 2007 to 2012, Mr. Jacobs served as a member of the Board of Directors of Xedar Corporation, a public company; from June 2006 to 2009, he was a director of Visual Management Systems, a private company; and he was a director of BioNeutral Group, Inc., a public company, until 2009. From October 17, 2013 to October 28, 2013, Mr. Jacobs served on the board of SED International Holdings, Inc. Mr. Jacobs was previously a director of Premier Exhibitions, Inc., a provider of museum quality touring exhibitions then listed on Nasdaq, and joined the board of directors of DATATRAK International, Inc. (OTC: DTRK), a technology and services company delivering "dClinical" solutions for the clinical trials industry, in January 2016. He has also been nominated for election to the board of directors of Resonant Inc. (Nasdaq: RESN) at its 2018 annual meeting of stockholders. Mr. Jacobs is Co-Chairman of the Medal of Honor Foundation and a member of the Board of Trustees of the USO of New York. Mr. Jacobs is the author of the book "If Not Now, When?: Duty and Sacrifice in America's Time of Need." Mr. Jacobs received a Bachelor of Arts and a Master's degree from Rutgers University.		

8) Officers, Directors, and Control Persons: *(Continued)*

A. Names of Officers, Directors, and Control Persons. *(Continued)*

Samuel S. Weiser 2012 58

Samuel S. Weiser is currently the President and Chief Executive Officer of Foxdale Management LLC, a consulting firm founded by Mr. Weiser that provides operational consulting, strategic planning, and litigation support services in securities related disputes, which has been operating since 2003. From August 2009 until April 2015, he was a member of the Board of Directors and from August 2014 until March 2015 was Executive Chairman of Premier Exhibitions, Inc., a provider of museum quality touring exhibitions then listed on Nasdaq. In addition, Mr. Weiser served as President and Chief Executive Officer of Premier Exhibitions from November 2011 until June 2014. Mr. Weiser was a member of SED International's Board of Directors from October of 2013 until October 2014. Previously, Mr. Weiser served as a member and Chief Operating Officer of Sellers Capital LLC, an investment management firm, from 2007 to 2010. From 2005 to 2007, he was a Managing Director responsible for the Hedge Fund Consulting Group within Citigroup Inc.'s Global Prime Brokerage Division. Mr. Weiser also served as Chairman of the Managed Funds Association, a lobbying organization for the hedge fund industry, from 2001 to 2003 and was formerly a partner in Ernst and Young. He received his B.A. in Economics from Colby College and a M.A. in Accounting from George Washington University.

The directors of the Company hold their positions as directors until the next Annual Meeting of Stockholders.

The names, ages, and offices with the Company of its executive officers are as follows:

Name	Age	Office
Hesham "Sham" M. Gad	40	Chief Executive Officer, Paragon Technologies
Deborah R. Mertz	61	Chief Financial Officer, Paragon Technologies

Deborah R. Mertz is an accounting professional with over 30 years' experience in both publicly held and privately held companies. From 2006 to 2013, Ms. Mertz held the position of Assistant Controller of ASSA ABLOY Inc. Americas Division. ASSA ABLOY is the largest global supplier of intelligent lock and security solutions. From 1999 to 2006, Ms. Mertz was the Controller/CFO of Sargent Manufacturing Company. Sargent Manufacturing Company is a wholly owned subsidiary of ASSA ABLOY Inc. and manufactures architectural hardware used primarily in commercial construction. Ms. Mertz has held various other senior accounting positions. Ms. Mertz is a CPA and has an MBA from Rider University and a B.S. in Accounting from King's College.

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses).

   The executive officers and directors of the Company have not, in the last five years, been the subject of a conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses).

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended, or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities.

   The executive officers and directors of the Company have not, in the last five years, been the subject of the entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities.

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated.

   The executive officers and directors of the Company have not, in the last five years, been the subject of a finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated.

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

   The executive officers and directors of the Company have not, in the last five years, been the subject of the entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

C. <u>Beneficial Shareholders</u>. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

To the best of the Company's knowledge, the following table sets forth certain information as of March 31, 2018 (unless otherwise noted) regarding the ownership of common stock by each person known by the Company to be the beneficial owner of more than ten percent (10%) of the outstanding common stock. Unless otherwise stated, the beneficial owners exercise sole voting and/or investment power over their shares.

Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Right to Acquire Under Options Exercisable Within 60 Days	Percent of Class (2)
Common Stock, Par Value $1.00 Per Share	Hesham M. Gad (3)	482,053	-	28.4%

(1) The address for the stockholder listed on the table is c/o Paragon Technologies, Inc., 101 Larry Holmes Drive, Suite 500, Easton, Pennsylvania 18042.
(2) The percentage for each individual, entity or group is based on the aggregate number of shares outstanding as of 3/31/2018.
(3) Mr. Gad holds 277,522 shares directly and beneficially owns 204,531 shares held by Gad Capital.

9) Third Party Providers:

Please provide the name, address, telephone number, and e-mail address of each of the following outside providers that advise your company on matters relating to operations, business development, and disclosure:

<u>Legal Counsel</u>:
Thompson Hine LLP
Attention: Derek D. Bork
3900 Key Center
127 Public Square
Cleveland, Ohio 44114-1291
Telephone number: (216) 566-5500
E-mail address: Derek.Bork@thompsonhine.com

<u>Auditor</u>:
RSM US LLP
Attention: Susan Roeder
518 Township Line Rd, Suite 300
Blue Bell, PA 19422
Telephone number: (215) 641-8600
E-mail address: Susan.Roeder@rsmus.com

9) Third Party Providers *(Continued)*

Statutory Auditor: Colombia
RSM Colombia
Attention: Jose Luis Salgado C.
Avenida Calle 26 N 69D – 91 Of.
303 / 306 / 702A Torre Peatonal.
Centro Empresarial Arrecife.
Bogota, Colombia
Telephone number: +57 (1) 410 4122
E-mail address: jose.salgado@rsmco.co

Investor Relations Consultant:
None.

Other Advisor:
None.

10) Issuer Certification:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

I, Hesham M. Gad, Chief Executive Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Paragon Technologies, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 15, 2018

/s/ Hesham M. Gad
Hesham M. Gad
Chief Executive Officer

10) Issuer Certification *(Continued)*

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

I, Deborah R. Mertz, Chief Financial Officer, certify that:

1. I have reviewed this quarterly disclosure statement of Paragon Technologies, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations, and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

May 15, 2018

/s/ Deborah R. Mertz
Deborah R. Mertz
Chief Financial Officer

PARAGON TECHNOLOGIES, INC.
and Subsidiaries

QUARTERLY REPORT

CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED FOR THE THREE MONTHS ENDED MARCH 31, 2018

CONSOLIDATED FINANCIAL STATEMENTS

I N D E X

- **Consolidated Financial Statements:**

PARAGON TECHNOLOGIES, INC.
Consolidated Balance Sheets (Unaudited)
March 31, 2018 and December 31, 2017
(In Thousands, Except Share and Per Share Data)

Assets	March 31, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$ 947	$ 2,040
Trade accounts receivables, net	10,594	12,643
Contract assets	73	90
Inventories:		
Raw materials	74	128
Work-in-process	1	1
Finished goods	11,656	10,916
Total inventories	11,731	11,045
Prepaid expenses and other current assets	3,925	3,881
Income tax receivable	-	-
Total current assets	27,270	29,699
Marketable securities	134	420
Investment in real estate	1,500	750
Machinery, equipment, and software, at cost:		
Machinery and equipment	547	513
Software	687	643
Land	21	-
Leasehold Improvements	21	-
Less: accumulated depreciation	962	872
Net machinery, equipment, software, land, leasehold impr.	314	284
Other assets - intangible assets, net	599	616
Deferred tax asset	135	125
Total assets	$ 29,952	$ 31,894

See accompanying notes to consolidated financial statements.

(Continued)

PARAGON TECHNOLOGIES, INC.
Consolidated Balance Sheets (Unaudited)*(Continued)*
March 31, 2018 and December 31, 2017
(In Thousands, Except Share and Per Share Data)

Liabilities and Stockholders' Equity	March 31, 2018	December 31, 2017
Current liabilities:		
Accounts payable	$ 12,500	$ 14,103
Contract Liabilities	771	1,119
Accrued salaries, wages, and commissions	240	209
Accrued product warranties	103	89
Income taxes payable	378	769
Accrued other liabilities	1,275	1,745
Bank loan - line of credit	8,354	7,836
Total current liabilities	23,621	25,870
Commitments and contingencies (Notes 9 and 10)		
Stockholders' equity:		
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding 1,694,745 shares as of March 31, 2018 and 1,684,745 as of December 31, 2017	1,695	1,685
Additional paid-in capital	3,500	3,499
Retained earnings	49	104
Accumulated other comprehensive income (loss)	74	(304)
Total Paragon Technologies, Inc. and subsidiaries stockholders' equity	5,318	4,984
Noncontrolling interest in subsidiary	1,013	1,040
Total stockholders' equity	6,331	6,024
Total liabilities and stockholders' equity	$ 29,952	$ 31,894

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.
Consolidated Statements of Operations (Unaudited)
For the Three Months Ended March 31, 2018 and 2017
(In Thousands, Except Share and Per Share Data)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net sales	$ 18,773	$ 5,927
Cost of sales	17,063	5,020
Gross profit on sales	1,710	907
Operating expenses:		
Selling, general and administrative expenses	1,628	1,318
Product development costs	4	2
Total operating expenses	1,632	1,320
Operating income (loss)	78	(413)
Other income (expense)		
Interest income	3	49
Interest expense	(91)	(31)
Realized gain on investment, marketable securities	149	188
Unrealized gain on investment, equity securities	1	-
Gain on bargain purchase	-	4,226
Total other income, net	62	4,432
Income before income taxes and noncontrolling interest	140	4,019
Income tax (expense) benefit	(86)	38
Net income before noncontrolling interest	54	4,057
Net income attributable to noncontrolling interest	23	2
Net income attributable to Paragon Technologies, Inc. and subsidiaries	$ 31	$ 4,055
Basic and diluted income per share	$ 0.02	$ 2.41
Weighted average shares outstanding	1,694,033	1,684,745
Dilutive effect of stock options	-	-
Weighted average shares outstanding assuming dilution	1,694,033	1,684,745

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.
Consolidated Statements of Comprehensive Income (Unaudited)
For the Three Months Ended March 31, 2018 and 2017
(In Thousands, Except Share and Per Share Data)

	Three Months Ended	
	March 31, 2018	March 31, 2017
Net income	$ 54	$ 4,057
Other comprehensive income (loss):		
Unrealized (loss) on debt securities net of tax	21	(66)
Foreign currency translation	357	74
Comprehensive income	$ 432	$ 4,065

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.
Consolidated Statements of Stockholders' Equity (Unaudited)
For the three Months Ended March 31, 2018 and the Years ended December 31, 2017 and 2016
(In Thousands, Except Share and Per Share Data)

	Common Stock		Additional Paid-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance at January 1, 2016	1,684,745	$ 1,685	$ 3,499	$ (1,552)	$ (31)	$ -	$ 3,601
Net loss	-	-	-	(1,084)	-	-	(1,084)
Net change in unrealized gain on marketable securities, net of tax	-	-	-		290	-	290
Balance at December 31, 2016	1,684,745	1,685	3,499	(2,636)	259	-	2,807
Net income	-	-	-	2,740	-	882	3,622
Net change in unrealized loss on debt securites, net of tax	-	-	-	-	(470)	-	(470)
Restricted stock	-	-	-	-	-	209	209
Distribution	-	-	-	-	-	(51)	(51)
Foreign currency translation	-	-	-	-	(93)	-	(93)
Balance at December 31, 2017	1,684,745	1,685	3,499	104	(304)	1,040	6,024
Net income	-	-	-	31	-	23	54
Net change in unrealized loss on debt securites, net of tax	-	-	-	-	(65)	-	(65)
Adoption of ASU 2016-01	-	-	-	(86)	86	-	-
Restricted stock	-	-	-	-	-	-	-
Distribution	-	-	-	-	-	(50)	(50)
Foreign currency translation	-	-	-	-	357	-	357
Stock grants to employees	10,000	10	1	-	-	-	11
Balance at March 31, 2018	1,694,745	$ 1,695	$ 3,500	$ 49	$ 74	$ 1,013	$ 6,331

See accompanying notes to consolidated financial statements

PARAGON TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2018 and 2017
(In Thousands)

	March 31, 2018	March 31, 2017
Cash flows from operating activities:		
Net income	$ 54	$ 4,057
Adjustments to reconcile net income (loss) to net cash provided (used in) operating activities:		
Depreciation of machinery, equipment and software	32	22
Amortization of intangible assets	17	5
Realized gains on investments	(149)	(188)
Unrealized gains on investments	(1)	
Stock based compensation	11	109
Gain on bargain purchase	-	(4,226)
Deferred taxes	48	45
Change in operating assets and liabilities:		
Trade accounts receivables	2,049	1,154
Contract assets	18	(180)
Inventories	(686)	(1,213)
Prepaid expenses and other current assets	(44)	(728)
Accounts payable	(1,603)	(237)
Contract liabilities	(348)	431
Accrued salaries, wages and commissions	31	180
Income tax receivable (payable)	(391)	(157)
Accrued product warranties	14	(43)
Accrued other liabilities	(471)	161
Net cash used in operating activities	(1,419)	(808)
Cash flows from investing activities:		
Acquisition of SEDC, less cash acquired	-	(914)
Purchases of machinery, equipment and software	(43)	(23)
Purchases of investments	-	(245)
Purchases of real estate	(750)	-
Proceeds from sale of investments	325	788
Net cash used in investing activities	(468)	(394)
Cash flows from financing activities:		
Borrowings of amounts from bank loan - line of credit, net	517	1,038
Repayments of amounts due to seller	-	-
Noncontrolling interest distribution	(50)	-
Net cash provided by financing activities	467	1,038
Effect of exchange rates on cash	328	81
Increase (decrease) in cash and cash equivalents	(1,092)	(83)
Cash and cash equivalents, beginning of period	2,039	1,733
Cash and cash equivalents, end of period	$ 947	$ 1,650
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense	$ 89	$ 31
Income taxes	$ -	$ 189
Supplemental disclosures of noncash investing activities:		
Mark to market on available for sale securities, gross	$ (110)	$ (110)
Supplemental disclosures of noncash operating, investing and financing activities:		
Acquisition of business (Note 2)		

See accompanying notes to consolidated financial statements.

(1) Description of Business and Summary of Significant Accounting Policies

Description of Business and Concentrations of Credit Risk

Paragon Technologies, Inc. ("Paragon" or the "Company"), is a holding company owning subsidiaries that engage in diverse business activities including material handling, distribution, real estate and investments.

Automation and Material Handling

Our material handling operations are operated through our subsidiary, SI Systems, LLC. SI provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. SI Systems' capabilities include horizontal conveyance and transportation, rapid dispensing and for order fulfillment, automatic document inserting system, a full suite of high performance Warehouse Execution Systems (WES), Warehouse Management Systems (WMS) and Warehouse Control Systems (WCS) software systems and aftermarket services. SI Systems' automated material handling systems are used by manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government.

SI Systems is brought to market as two individual brands, SI Systems' Dispensing and Towline. The Dispensing business focuses on providing order fulfillment systems to distribution operations, including Dispen-SI-matic®, Mobile-Matic® (a patented product), Doc-U-spense™ automatic document inserting system and our full suite of Warehouse Execution Systems, Warehouse Management Systems and Warehouse Control Systems software solutions with our SI-IWS™ product. These systems are sold primarily through a nationwide network of authorized material handling integrators, dealers and direct to major OEM, end users and 3PL accounts. The Towline business focuses on providing automated material handling systems to manufacturing, assembly and distribution operations via our Lo-Tow® Towline horizontal conveyance and transportation technologies. These systems are sold primarily to end users.

Distribution

Our distribution operations are carried out through our subsidiary SED International de Colombia ("SED Colombia" or "SEDC"). SED Colombia currently distributes IT hardware products from 27 top worldwide leading manufacturers such as Hewlett Packard, Lenovo, Dell, Asus, Epson and others.

SEDC business is divided into three main business units: Value, Transactional and Integrated Services. The Value business unit focuses on enterprise sales and business projects, typically selling more specialized products that usually carry higher margins. The top products distributed by our Value unit include servers, workstations, storage, networking and power protection systems. SEDC Transactional business unit focuses on the consumer business (retail resellers) as well as run rate products for Value Added Resellers (VAR'S) selling to small and medium businesses (SMB). The top products distributed by the Transactional business unit include notebook computers, desktop computers, printers, TVs, audio/visual equipment, projectors and accessories. In July 2017, SEDC launched the Integrated Services business unit. The services provided by this business unit include business cloud services, managed services, professional IT services, infrastructure IT solutions and internet of things (IOT) solutions. The Integrated Service unit has also taken ownership of the extended warranties and maintenance agreements sales.

Real Estate

In December 2017, Ohana Home Services, LLC, a wholly owned subsidiary of Paragon, was established to acquire real estate for income and capital appreciation purposes. In December 2017, Paragon acquired residential real estate in Las Vegas, Nevada for $750,000. In January 2018, Paragon transferred title of the real estate to Ohana. There was no consideration exchanged between the parties. In January 2018, Ohana acquired a second similar residential property also in Las Vegas, Nevada for $750,000. Ohana intends to lease its real estate to generate positive cash flow for the foreseeable future and may seek to monetize its real estate holdings during favorable market conditions.

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Description of Business and Concentrations of Credit Risk *(Continued)*

Investments

Paragon also invests in businesses and securities under the Investment Management Policy. The Investment Management Policy sets forth the parameters under which a portion of Paragon's cash balance may be invested in marketable securities, including U.S. Treasuries, equities of publicly traded companies, bonds, money market instruments and other securities. Investment decisions under the Investment Management Policy are made by Sham Gad, CEO and Chairman of the Board. The Investment Management Policy sets forth restrictions on the investment of Paragon's funds, including an aggregate limit on Paragon's cash balance that is made available for investment, limits on the amount that may be invested in any single equity or fixed income position or certain categories of securities, prohibition of short-selling, margin trading and the use of leverage, requirements for the management of the investment account, and other Board-approval requirements.

In the three months ended March 31, 2018, one customer individually accounted for sales of 10.5%. In the three months ended March 31, 2017, no customers accounted for over 10% of sales. No other customers accounted for over 10% of sales.

As of March 31, 2018, and 2017, no customers individually owed the Company greater than 10% of trade accounts receivables, respectively.

SI Systems maintains its cash and cash equivalents in a financial institution located in the United States of America. At times, cash balances may be in excess of F.D.I.C. limits. Investment balances are held in broker accounts and may be in excess of S.I.P.C. limits.

Principles of Consolidation

The consolidated financial statements include the accounts of Paragon Technologies, Inc. and its wholly owned subsidiaries SI Systems, LLC, (SI Systems) Ohana Home Services, LLC (Ohana) and ARK Investments, LLC (ARK). ARK owns 80% of SED International de Colombia, S.A.S.

Use of Estimates

The preparation of the financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The judgments made in assessing the appropriateness of the estimates and assumptions utilized by management in the preparation of the financial statements are based on historical and empirical data and other factors germane to the nature of the risk being analyzed. Materially different results may occur if different assumptions or conditions were to prevail. Estimates and assumptions are mainly utilized to establish the appropriateness of the inventory reserve, warranty reserve, deferred tax valuation allowance and revenue recognition on fixed price contracts.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash on deposit, amounts invested on an overnight basis with a bank or broker/dealer and other highly liquid investments purchased with an original maturity of three months or less.

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at outstanding balances, less an allowance for doubtful accounts. For SI Systems, the allowance for doubtful accounts is determined by a specific identification of individual accounts. The Company writes off receivables upon determination that no further collections are probable. For SEDC, an allowance for doubtful accounts has been established based on collection experience and an assessment of the collectability of specific accounts. The overall determination of the allowance also considers credit insurance coverage and deductibles. SEDC maintains credit insurance, which protects the Company from credit losses exceeding certain deductibles (subject to certain terms and conditions). The allowance for doubtful accounts was $28,428 and $0 as of March 31, 2018 and 2017, respectively.

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Inventories

For SI Systems, inventories primarily consist of materials purchased or manufactured for stock and are stated at the lower of cost (first-in, first-out method) or net realizable value. For SEDC, inventories consist of finished goods and are stated at the lower of cost (first-in, first-out method) or market. Certain SEDC vendors allow for either return of goods within a specified period (usually 45 - 90 days) or for credits related to price protection. However, for certain other vendors and inventories, the Company is not protected from the risk of inventory loss. Therefore, in determining the net realizable value of inventories, the Company identifies slow moving or obsolete inventories that (1) are not protected by vendor agreements from risk of loss, and (2) are not eligible for return under various vendor return programs. Based upon these factors, the Company estimates the net realizable value of inventories and records any necessary adjustments as a charge to cost of sales. If inventory return privileges were discontinued in the future, or if vendors were unable to honor the provisions of certain contracts which protect SEDC from inventory losses, including price protections, the risk of loss associated with obsolete, slow moving or impaired inventories would increase.

Marketable Securities

The Company adopted ASU 2016-01 on January 1, 2018. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The Company reclassified $86,000 between other comprehensive income and retained earnings due to the adoption of ASU 2016-01.

The Company's marketable securities portfolio is designated as available-for-sale. Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, capital considerations and other similar factors. Previous to the adoption of ASU 2016-01, unrealized gains and losses on all securities were reported as increases or decreases in other comprehensive income (loss). With the adoption of ASU 2016-01 as of January 1, 2018, the Company now recognizes the change in the value of equity securities in its current period income statement. During the quarter ended March 31, 2018, the Company recognized an unrealized gain of $1,312 due to the closing trade price on that date. Unrealized gains and losses on debt securities continue to be reported as increases or decreases in other comprehensive income (loss). Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings.

Declines in the fair value of securities below their cost that are deemed to be other-than-temporary impairments (OTTI) are reflected in earnings as realized losses. In estimating OTTI under the rules for accounting for certain debt and equity securities, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to anticipated recovery, the other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings.

The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

The Company has not recognized any other-than-temporary impairment losses for the three months ended March 31, 2018 and 2017.

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Marketable Securities *(Continued)*

The amortized cost and approximate fair value of marketable securities available-for-sale as of March 31, 2018 and December 31, 2017 are summarized as follows *(in thousands)*:

	Equity Securities			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018	$ 40	$ 2	$ 0	$ 42
December 31, 2017	239	152	10	381

	Debt Securities			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018	$ 555	$ 0	$ 463	$ 92
December 31, 2017	555	0	516	39

	Total Marketable Securities			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2018	$ 595	$ 2	$ 463	$ 134
December 31, 2017	794	152	526	420

At March 31, 2018, the Company had two debt securities in an unrealized loss position for less than twenty-one months. The decline in fair value is not due to credit losses. The Company does not intend to sell these securities prior to recovery and it is more likely than not that the Company will not be required to sell these securities prior to recovery and, therefore, no securities are deemed to be other-than-temporarily impaired. Fair value accounting guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 — Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Marketable Securities *(Continued)*

Level 2 — Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 — Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2018 and December 31, 2017 are as follows *(in thousands)*:

	Marketable Securities			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2018	$ 134	$ 134	$ -	$ -
As of December 31, 2017	420	420	-	-

Investment in Real Estate

In December 2017, Ohana was established to acquire real estate for income and capital appreciation purposes. In December 2017, Paragon acquired residential real estate in Las Vegas, Nevada for $750,000. In January 2018, Paragon transferred title of the real estate to Ohana. There was no consideration exchanged between the parties. In January 2018, Ohana acquired a second similar residential property also in Las Vegas, Nevada for $750,000. Ohana intends to lease its real estate to generate positive cash flow for the foreseeable future and may seek to monetize its real estate holdings during favorable market conditions.

Fixed Assets

Machinery, equipment and software acquired in business combinations are recorded at fair value; additions are recorded at cost. Machinery, equipment and software are depreciated on the straight-line method over the estimated useful lives of individual assets. The Company capitalizes costs incurred to develop commercial software products or enhancements to software products where such enhancement extends the life of the products. The ranges of lives used in determining depreciation rates for machinery and equipment and software is generally 3 - 7 years. Maintenance and repairs are charged to operations; betterments and renewals are capitalized. Upon sale or retirement of machinery and equipment, the cost and related accumulated depreciation are removed from the accounts and the resultant gain or loss, if any, is credited or charged to earnings.

Intangible Assets

As a result of the acquisition of SEDC in 2017, intangible assets of a trade name and customer relationships were recognized at fair value. The details of the intangible assets and the related amortization are shown in Note 5 to the consolidated financial statements.

(1) <u>Description of Business and Summary of Significant Accounting Policies</u> *(Continued)*

<u>Impairment of Long Lived Assets</u>

The Company reviews the recovery of the net book value of long-lived assets whenever events and circumstances indicate that the net book value of an asset may not be recoverable. In cases where undiscounted expected future cash flows are less than the net book value, an impairment loss is recognized equal to an amount by which the net book value exceeds the fair value of assets. There were no impairments noted in 2018 or 2017.

<u>Foreign Currency Translation</u>

The financial statements of the foreign operations are measured in their local currency and then translated to U.S. dollars. All balance sheet accounts have been translated using the current rate of exchange at the balance sheet date or historical rates of exchange, as applicable. Results of operations have been translated using the average monthly exchange rates. Translation gains or losses resulting from the changes in exchange rates from year to year are accumulated in a separate component of stockholders' equity and are reported in the consolidated statements of comprehensive income (loss). Realized foreign currency transaction gains and losses are included in the accompanying consolidated statements of operations.

<u>Revenue and Cost Recognition</u>

SI recognizes revenue from contracts with customers under Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606).*" The primary revenue sources for SI Systems are from fixed price system contracts, sales of parts or equipment and individual support service contracts.

SI recognizes revenue using the following steps:

1. Identification of the contract with a customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, performance obligations are satisfied.

Revenue on a significant portion of SI Systems contracts is currently recognized using a cost-to-cost method based on the continuous transfer of control to the customer over time. SI transfers control for the system contracts, in two ways: (1) SI's performance creates or enhances an asset that the customer controls as the customized asset is created or enhanced for our Towline brand and (2) SI has an enforceable right to payment for both our Towline and Dispensing brands. The entire contract is the performance obligation. Typically, we would not sell the design, implementation and installation individually. The customer would not benefit from the individual good or service on its own. There is no alternative use for the customer.

The Company accounts for system contracts on an over time basis, electing an input method of estimated costs as a measure of performance completed. The selection of the measurement of progress using estimated costs was based on a thorough consideration of alternatives of various output and input measures, including contract milestones and labor hours. However, the Company has determined that other input and output measures are not an appropriate measure of progress as they do not accurately align with the transfer of control on its customized product solutions. The selection of costs incurred as a measure of progress aligns the transfer of control to the overall production of the customized system.

For systems contracts accounted for over time using estimated costs as a measure of performance completed, the Company relies on the estimates around the total estimated costs to complete the contract ("Estimated Costs at Completion"). Total Estimated Costs at Completion include direct labor, material and subcontracting costs. Due to the nature of the efforts required to be performed to meet the underlying performance obligation, determining Estimated Costs at Completion may be complex and subject to many variables. We have a standard and disciplined quarterly process in which management reviews the progress and performance of open contracts in order to determine the best estimate of Estimated Costs at Completion. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion, the project schedule, identified risks and opportunities, and the related changes in estimates of costs. The risks and opportunities include management's judgment about the ability and cost to achieve the project schedule, technical requirements, and other contract requirements. Management must make assumptions and estimates regarding

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Revenue and Cost Recognition (*Continued)*
labor productivity and availability, the complexity of work to be performed, the availability and cost of material, and performance by subcontractors, among other variables. Based on this analysis, any quarterly adjustment to net sales, cost of sales, and the related impact on operation income are recorded as necessary in the period they become known. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

Payment terms for system contracts include an initial payment at the time the contract is executed, with future payments dependent upon the completion of certain contract phases or targeted milestones. In the event of contract cancellation, SI Systems is entitled to payment for all work performed through the point of cancellation. Likewise, in the event of contract cancellation prior to earning revenue equal to or greater than the initial payment, SI Systems is generally not required to refund the unused portion.

For SI's revenue for sales of parts or equipment, the contract is the customer purchase order that outlines the transaction price. The performance obligation is the shipment of the products ordered by the customer, which aligns with SI's standard sales terms that title to the goods transfer to the customer upon shipment of the items. Based on the simplified nature of these contracts, total revenue related to the sale is attributable to the satisfaction of the performance obligation, which occurs upon shipment.

For SI's revenue for individual support services, the contract is the customer purchase order that outlines the transaction price. Support contracts are prepaid and typically cover a one-year period. Revenue recognized ratably over the course of the contract term. SI is entitled to payment regardless of what level of support is required and regardless of the outcome. The performance obligation is related to the promise to have a resource available. SI analyzed the software support percentage of cost to revenue monthly, quarterly and annually for the three years ended December 31, 2017, 2016 and 2015. SI found consistency year over year in the annual percentage of cost to revenue. There were fluctuations month to month and quarter to quarter, but that can happen depending on the customer's needs and depth of support. Therefore, due to the unpredictable fluctuations, SI determined support service (in the form of availability to the customer) is provided over the life of the contract and revenue should be recognized accordingly.

SEDC recognizes revenue from contracts with customers under Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2014-09, "*Revenue from Contracts with Customers (Topic 606)."* The primary revenue source for SEDC revenue is distribution of IT hardware products.

SEDC recognizes revenue using the following steps:

1. Identification of the contract with a customer;
2. Identification of the performance obligations in the contract;
3. Determination of the transaction price;
4. Allocation of the transaction price to the performance obligations in the contract; and
5. Recognition of revenue when, or as, performance obligations are satisfied.

For SEDC's revenue for sales of parts or equipment, the contract is the customer purchase order that outlines the transaction price. The performance obligation is the shipment of the products ordered by the customer, which aligns with SEDC's standard sales terms that title to the goods transfer to the customer upon shipment of the items. Based on the simplified nature of these contracts, total revenue related to the sale is attributable to the satisfaction of the performance obligation, which occurs upon shipment.

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Revenue and Cost Recognition *(Continued)*

Revenue Sources (*in thousands*)

Revenue	For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
System Contracts	$ 712	$ 829
Parts and Equipment	410	372
Support Service Contracts	186	173
Distribution	17,465	4,553
Total	$ 18,773	$ 5,927

Contract Balances *(in thousands)*

	March 31, 2018	December 31, 2017
Receivables	$ 10,594	$ 12,643
Contract assets	$ 73	$ 90
Contract liabilities	$ 771	$ 1,119

Contract assets consist of amounts formerly classified as costs and estimated earnings in excess of billings where the Company does not yet have an unconditional right to bill. Contract liabilities consist of amounts formerly classified as Billings in excess of costs and estimated earnings and unearned support contract revenue.

Payment terms on system contracts are typically tied to implementation milestones associated with progress on contracts while revenue recognition is over-time based on a cost-to-cost method of measuring performance. The Company may recognize a contract asset or contract liability, depending on whether revenue has been recognized in excess of billings or billings in excess of revenue. The Company does not record a financing component to contracts when it expects, at contract inception that the period between the transfer of a promised good or service and related payment terms are less than a year, applying practical expedients available under the accounting standards.

Revenue recognized during the three months ended March 31, 2018 which was previously included in Contract liabilities as of January 1, 2018 is $511 *(in thousands).*

There have been no impairment losses recognized on customer receivables or contract assets during the three months ended March 31, 2018.

SI Systems contract costs include all direct material, subcontract and labor costs, and those indirect costs related to contract performance, including but not limited to costs such as indirect labor, supplies, tools, repairs, and depreciation. Selling, general and administrative costs are charged to expense as incurred.

Unearned Support Contract Revenue

SI Systems offers its Order Fulfillment customers one-year support contracts for an annual service fee. The support contracts cover a customer's single distribution center or warehouse where SI Systems products are installed. As part of its support contracts, SI Systems provides analysis, consultation, and technical information to the customer's personnel on matters relating to the operation of its Order Fulfillment System and related equipment and/or peripherals.

SI Systems records advance payments for unearned support contracts in the balance sheet as a contract liability that are in excess over amounts recognized as revenue at the end of each period. Revenue on individual support contracts is deferred and recognized on a straight-line basis over the one-year term of each individual support contract. Refer to Revenue and Cost Recognition above for more information.

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Product Development Costs

The Company expenses product development costs as incurred.

Accrued Product Warranty

SI Systems products are warranted against defects in materials and workmanship for varying periods of time depending on customer requirements and the type of system sold, with a typical warranty period of one year. SI Systems provides an accrual for estimated future warranty costs and potential product liability claims based upon a percentage of cost of sales, typically one and one-half percent of the cost of the system being sold. A detailed review of the liability needed for products still in the warranty period is performed each quarter.

A roll-forward of warranty activities is as follows *(in thousands)*:

	Beginning Balance January 1	Additions (Reductions) Included in Cost of Sales	Claims	Ending Balance March 31
2018……………………..	$ 89	$ 12	$ 2	$ 103
2017……………………..	67	(43)	0	24

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Income tax expense is the tax payable or refundable for the period, plus or minus the change during the period in deferred tax assets and liabilities.

Tax benefits for uncertain tax positions are recognized when it is more likely than not that the position will be sustained upon examination based on its technical merits. The Company classifies interest and penalties related to unrecognized tax benefits as a component of income tax expense. To the extent interest and penalties are not assessed with respect to uncertain tax positions, amounts accrued will be reduced and reflected as a reduction of the overall income tax provision.

U.S. Tax Reform: The Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to record and pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings.

As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the federal rate at which they are expected to reverse in the future, which is generally 21%. The Company also remeasured the state rate at which certain deferred tax assets and liabilities are expected to reverse in the future associated with the reduction in the future federal benefit from state deferred tax assets and liabilities from 35% to 21%. The amount recorded related to the remeasurement of the Company's deferred tax balance was recorded to the deferred balances with an offset to the deferred tax allowance.

The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P") that were previously deferred from U.S. income taxes. The Company recorded a liability of $46 *(in thousands)* for the one-time transition tax for its foreign subsidiaries.

(1) Description of Business and Summary of Significant Accounting Policies *(Continued)*

Income Taxes (Continued)

The Company has not yet made a policy election with respect to its treatment of potential global intangible low-taxed income ("GILTI") which will be required for fiscal year 2018. Companies can either account for taxes on GILTI as incurred or recognize deferred taxes when basis differences exist that are expected to affect the amount of the GILTI inclusion upon reversal. The Company is still in the process of analyzing the provisions of the Act associated with GILTI and the expected impact of GILTI on the Company in the future.

SI is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2014.

SEDC is no longer subject to income tax examinations for tax years ended before December 31, 2012. However, management and its tax advisors estimate that no significant differences may result from such contingent examinations that justify any additional accrual to cover the possibility of any expenses deemed as not allowed by the local tax authority.

Stock-Based Compensation

The Company has a stock-based compensation plan in place and records the associated stock-based compensation expense over the requisite service period. Restricted stock awards that are service-based are recorded as equity and amortized into compensation expense on a straight-line basis over the vesting period. These stock-based compensation plans and related compensation expense are discussed more fully in Note 6 to the consolidated financial statements.

Earnings Per Share

Basic and diluted earnings per share for the three months ended March 31, 2018, and 2017 are based on the weighted average number of shares outstanding.

(2) Acquisition Information

SED International de Colombia S.A.S.

On October 17, 2016, Ark Investments, LLC was formed as a wholly owned subsidiary of Paragon Technologies, Inc. On March 1, 2017, Ark Investments, LLC acquired SED International de Colombia, S.A.S. (SEDC), a Colombian based company, for a purchase price of $1,395,000. SEDC distributes computer and technology systems in Colombia and Latin America. The Company purchased all the outstanding capital stock with cash. Operations of SEDC are included from the acquisition date through December 31, 2017 in the consolidated statement of income.

SEDC was an attractive acquisition target to Paragon because of its business model and consistent earnings stream. Prior to the acquisition date, SEDC's parent company, SED International Holdings, Inc., had filed for protection under the U.S. bankruptcy regulations. The U.S. Bankruptcy Court approved bidding procedures related to the sale of SEDC in December of 2016 and then approved the purchase of SEDC by Ark Investments, LLC in February, 2017. The SEDC acquisition resulted in a bargain purchase and a gain was recorded in other income of $4,226,089.

Intangible assets of $672,229 were recognized at fair value and are composed of trade name of $536,690 and customer relationships of $135,539. The weighted average useful life of the intangible assets is 10 years.

(2) Acquisition Information *(Continued)*

SED International de Colombia S.A.S. *(Continued)*

The allocated fair value of assets acquired and liabilities assumed is summarized as follows *(in thousands)*:

Cash	$ 481
Trade accounts receivables	8,289
Inventories	9,713
Prepaid and other assets	4,176
Software and equipment	280
Deferred taxes	119
Intangible assets	672
Total assets acquired	23,730
Credit lines	4,798
Accounts payable	11,292
Accrued other liabilities	1,208
Income taxes payable	811
Total liabilities assumed	18,109
Total identified net assets acquired	5,621
Bargain purchase gain	(4,226)
	$ 1,395

All acquisition related costs, including legal, professional, and other expenses, were expensed by the Company in the period incurred and not included in the purchase price. Acquisition costs were approximately $29,000 and are included in selling, general and administrative expenses on the consolidated statement of operations for the three months ended March 31, 2017. There were no acquisition costs for the three months ended March 31, 2018.

(3) Segment Information

Segment information for the three months ended March 31, 2018 is as follows (*in thousands*):

Three Months Ended March 31, 2018	Automation/ Material Handling	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net Sales to unaffiliated customers	$ 1,293	$ 17,464	$ 16	$ -	$ -	$ 18,773
Gross Profit	340	1,370	-	-	-	1,710
Operating income (loss)	(231)	314	(5)	-	-	78
Foreign Currency transaction gain (loss)	-	379	-	-	-	379
Interest expense, net	(17)	(80)	-	-	6	(91)
Interest income	-	7	-	2	(6)	3
Investment income	-	-	-	150	-	150
Income tax expense (benefit)	(20)	106	-	-	-	86
Net income (loss) attributable to Paragon Technologies, Inc. and subsidiaries	(206)	90	(5)	152	-	31
Total assets at March 31, 2018	$ 3,330	$ 31,881	$ 1,569	$ 134	$ (6,962)	$ 29,952

The domestic segments include automation/material handling, real estate and investments. The foreign segment is distribution.

(4) Line of Credit

During 2018 and 2017, the Company had a $750,000 line of credit facility with its principal bank to be used primarily for working capital purposes. The line of credit facility contains various non-financial covenants and is secured by all of the Company's trade accounts receivables and inventories. The availability on the line of credit was $50,000 as of March 31, 2018. Interest on the line of credit facility is based on the "Wall Street Journal Prime Rate". The outstanding borrowings were $700,000 and $320,000 as of March 31, 2018 and 2017, respectively.

During 2018 and 2017, the Company had a $945,000 line of credit facility with its marketable securities broker to be used primarily for general business purposes. The line of credit facility is secured by the available securities in the account. The availability on the line of credit was approximately $945,000 as of March 31, 2018. Interest on the line of credit facility is based on the one (1) month Libor rate plus 225 bps. The outstanding borrowings were $0 and $715,000 as of March 31, 2018 and 2017, respectively.

During 2017, the Company had a $1,500,000 line of credit facility with its principal bank to be used primarily for working capital needs associated with large long-term contracts. The line of credit facility was not renewed at its expiration in November 2017.

SEDC currently maintains short term working capital lines of credit at four local banks. Below is a detail of this lines as of March 31, 2018:

			Line of credit		Borrowings		Availability	
Bank Name	Currency	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Davivienda	Local	IBR+4.2	2,200,000	791,233	1,989,999	715,706	210,001	75,527
Bancoomeva	Local	DTF+5	2,000,000	719,303	2,000,000	719,303	0	0
Bancolombia	USD	DTF+2.6	5,196,687	1,868,996	5,196,687	1,868,996	0	0
de Occidente	Local	IBR+4.31%	633,844	227,963	419,896	151,016	213,949	76,947
			10,030,531	3,607,495	9,606,582	3,455,021	423,950	152,474

SEDC also has an accounts receivable factoring credit arrangement with Banco de Occidente for up to 2 billion Colombian pesos, or approximately $719,313 U.S. dollars. Per the arrangement, the bank advances SEDC the funds when they factor the invoice minus estimated interest expense assuming 60 days' payment term, and when the customer pays the bank, any interest expense difference is settled. The interest rate for this facility is IBR+3.8% and there was approximately $366,469 U.S. dollars availability and approximately $352,833 U.S. dollars outstanding at March 31, 2018.

SEDC has revolving credit arrangements with three local banks for factoring accounts payable from HP Inc., Lenovo and Epson for up to $4,447,505 in total. The factoring arrangements allow for 74 to 77 days' payment terms at 0% interest rate. If the 74 to 77 days are exceeded, interest will be charged at the prevailing market rate for the excess period. The outstanding borrowings were $3,845,865 as of March 31, 2018.

(5) Intangible Assets

Intangible assets are as follows *(in thousands):*

	March 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade name	$ 537	$ 58	$ 479
Customer Relations ………………..	135	15	120
	$ 672	$ 73	$ 599

	December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade name	$ 537	$ 45	$ 492
Customer Relations ………………..	135	11	124
	$ 672	$ 56	$ 616

(6) Stock Options and Non-Vested Stock

2012 Equity Incentive Plan

On July 27, 2012, the Board of Directors of the Company adopted the Paragon Technologies, Inc. 2012 Equity Incentive Plan (the "Plan"). Under the Plan, the Board may grant restricted stock, stock options, stock appreciation rights and other equity-based awards to employees, directors and consultants of the Company. Initially, there were 200,000 shares of the Company's common stock available for grant under the Plan. The Plan provides that it will be administered by the Board or a committee of the Board that may be designated in the future. The Plan has a term of 10 years. On September 18, 2013, the Board of Directors increased the number of shares of common stock available for grant under the Plan to 350,000 shares.

During the three months ended March 31, 2018, 10,000 shares were granted to an employee. Stock-based compensation expense recognized during the three months ended March 31, 2018 for stock-based compensation programs was $11,400 for employee stock grants. All of the stock–based compensation expense was a component of selling, general and administrative expenses. There were no stock grants for the three months ended March 31, 2017. There were no stock options granted for the three months ended March 31, 2018 and 2017.

The Company estimates the fair value of stock options on the grant date by applying the Black-Scholes option pricing valuation model. The application of this valuation model involved assumptions that are highly subjective, judgmental, and sensitive in the determination of compensation cost.

Restricted Stock – Non-controlling Interest

The Company was party to an agreement to grant a 20% noncontrolling interest (NCI) in SEDC to El-Gibhor, an entity controlled by Mr. Ronell Rivera, President of SEDC. The acquisition date fair value of the NCI was $209,250. The fair value of the NCI was calculated by taking 20% of the fair value of the total consideration less a 25% discount for lack of control. Total compensation expense for the three months ended March 31, 2018 and 2017 related to the NCI was $0 and $109,381, respectively. As of December 31, 2017, El-Gibhor is fully vested in the 20% NCI.

(6) Stock Options and Non-Vested Stock *(Continued)*

Chairman's Compensation and Directors' Fees Paid

For 2017, Mr. Gad was paid $150,000 in cash for his roles as chairman of the board and director. The other directors were paid $36,000 in cash in four equal quarterly installments in advance of each quarter.

For 2018, Mr. Gad as chairman and director is expected be paid the same fees as stated above for 2017. For 2018, the other directors are also expected to be the paid the same fees as stated above for 2017.

As of December 2017, Mr. Gad began serving as Interim CEO of SI Systems, LLC, a subsidiary of the Company. In that role, Mr. Gad receives compensation of $4,000 every two weeks and, for the three months ended March 31, 2018, his total compensation as CEO of SI Systems totaled $24,000.

(7) Employee Benefit Plans

The Company has a defined contribution Retirement Savings Plan for its U.S. employees. Employees age 21 and above are eligible to participate in the Plan. Effective March 30, 2009, Company contributions under the Company's Retirement Savings Plan were suspended for an indefinite period of time as part of a cost-reduction initiative. Effective August 14, 2015, Company contributions have been reinstated. The matching contribution for the 3 months ended March 31, 2018 and 2017 was $5,269, and $7,812, respectively. The Plan also contains provisions for profit sharing contributions in the form of cash as determined annually by the Company's Board of Directors. There was no profit sharing contributions for the three months ended March 31, 2018 and 2017. Total expense for the Retirement Savings Plan, including Plan expenses, was $5,269 and $7,812 for the three months ended March 31, 2018, and 2017, respectively.

(8) Income Taxes

The provision for income tax expense (benefit) consists of the following *(in thousands)*:

		For the Three Months Ended March 31, 2018	For the Three Months Ended March 31, 2017
Federal:	current	$ 14	$ (48)
	deferred	-	-
		14	(48)
State:	current	(6)	(10)
	deferred	-	-
		(6)	(10)
Foreign:	current	106	20
	deferred	-	-
		106	20
		$ 86	$ (38)

(8) Income Taxes (Continued)

The Company had no federal net operating losses at December 31, 2017. The Company had state net operating losses of approximately $2,623 (in thousands) at December 31, 2017, expiring at various times based on individual state limits.

Valuation allowances are provided to reduce the carrying amount of deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. When assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in the appropriate taxing jurisdictions during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, taxable income in carryback years, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income, management has concluded that SI Systems domestic deferred tax assets are more likely than not to expire before SI Systems can use them and, therefore, the Company's management has concluded that a full valuation allowance for deferred tax assets, net of deferred tax liabilities, was appropriate as of December 31, 2017 and 2016. There is a deferred tax asset of $135 and $131 (in thousands) on SEDC as of March 31, 2018 and 2017, respectively.

(9) Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. On March 27, 2017, John A. Harrell filed a lawsuit against SI Systems in the United States District Court for the District of Delaware regarding alleged breaches of a Stock Purchase Agreement between Mr. Harrell and SI Systems, dated on or about April 15, 2013. The parties settled the matter on December 28, 2017, and the case was dismissed by the Court with prejudice pursuant to the terms of that settlement on January 8, 2018. All expenses related to the settlement have been included in the selling, general and administrative expenses for the year ended December 31, 2017. There are no pending actions as of March 31, 2018.

(10) Commitments

SI Systems leases a facility located at 101 Larry Holmes Drive in Easton, Pennsylvania. The area covered by the lease is 9,648 square feet. The leasing agreement requires fixed monthly payments of $13,500 for the final thirty-six months through April 30, 2020 when the lease expires. Total rental expense for the three months ended March 31, 2018 and the three months ended March 31, 2017 approximated $53,738 and $53,238 respectively.

SED Colombia leases a 32,000 square foot facility in Chia (Cundinamarca), Colombia. The center, located near Bogotá, the capital city of Colombia, serves as a sales and administrative office and distribution facility for SEDC. The lease expires in October 2018. The monthly payment is the equivalent of approximately $11,360.

SEDC also leases office space in Palmetto Bay, Florida for a monthly payment of $1,362 (the lease expires at the end of March 2019) and two apartments in Chia for use by its two members of the management team based out of Miami, Florida for an aggregate monthly payment of the equivalent of approximately $1,021. These leases expire in mid July 2018 and end of March 2019, respectively.

Future minimum rental commitments at March 31, 2018 are as follows (in thousands):

	Operating Leases		
	SI Systems	SEDC	Total
2018	$122	$99	$ 221
2019	162	6	168
2020	54	-	54
Total	$ 338	$ 105	$ 443

(11) Stock Repurchase Program

On May 14, 2015, the Company's board of directors approved a program to repurchase up to $250,000 of its outstanding stock. There were no stock repurchases during the three months ended March 31, 2018 and 2017.

(12) Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments.* This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted. The Company adopted this standard in 2018 with no material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842).* The guidance in the ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company's adoption of ASU No. 2016-02 is not expected to have a material impact on the Company's financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10).* The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the standard clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this standard in 2018 with no material impact on the Company's financial statements. The Company reclassified $86,000 between other comprehensive income and retained earnings due to the adoption of ASU 2016-01

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes,* which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. The Company is required to adopt this ASU no later than January 1, 2018, with early adoption permitted and the guidance may be applied either prospectively or retrospectively. The Company adopted this standard in 2018 with no material impact on the Company's consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)."* ASU 2014-09 supersedes SEC Staff Accounting Bulletin Topic 13, "*Revenue Recognition,"* and ASC 605, *"Revenue Recognition Multiple-Element Arrangements"*, which was the guidance previously followed by the Company. The new revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. The statement was effective for public entities for annual periods beginning after December 15, 2017.

The Company adopted ASU 2014-09, "Revenue from Contracts with Customers", and all the related amendments (collectively "ASC 606") on January 1, 2018, using the full retrospective method that restates prior period financial statements presented.

(12) Recently Issued Accounting Pronouncements *(Continued)*

The restated changes made to our consolidated opening balance sheet as January 1, 2018 due to the full retrospective method of adoption of ASC 606 are as follows:

In thousands

	December 31, 2017 before Restatement (Audited)	Reclassification of Contract Assets	Reclassification of Contract Liabilities	December 31, 2017 After Restatement (Unaudited)
Contract assets	$ -	$ 90	$ -	$ 90
Costs and estimated earnings in excess of billings	90	(90)	-	-
Contract Liabilities	-	-	1,119	1,119
Billings in excess of costs and estimated earnings	733	-	(733)	-
Unearned support contract revenue	$ 386	$ -	$ (386)	$ -

(13) Subsequent Events

Events and transactions for items that should potentially be recognized or disclosed in these financial statements occurring subsequent to the balance sheet date of March 31, 2018, have been evaluated through May 15, 2018, the date which these financial statements were available to be issued.