To The Shareholders of Paragon Technologies ("Paragon"):

Paragon's per share book value increased by 114% in 2017, to $3.58 per share, compared with $1.67 per share in 2016. Once again, shares outstanding remained unchanged year over year (at the beginning of 2018, 10,000 shares were issued to an executive). Revenues in 2017 equaled $64.6 million compared to $8.6 million in 2016. Net income in 2017 was $2.7 million compared to a net loss of $1.1 million in 2016, respectively. The substantial gains in sales, profitability, and book value in 2017 was due to Paragon's acquisition of the Latin American distribution business of SED International.

Paragon, through its wholly owned subsidiary Ark Investments, acquired 100% of the outstanding stock of SED Colombia (SEDC) for $1.4 million in February of 2017. Subsequent to our acquisition, Paragon agreed to transfer 20% of its equity interest in SED Colombia to our partner Ronell Rivera who serves as the President of SED Colombia. We couldn't be happier with this arrangement and we believe that the experience and integrity that Ronell will deliver to SED will multiply SEDC's business value by factors over the coming years. We will take 80% of a growing, well managed business any day over 100 percent of an alternative.

Last year was a very transformative year for Paragon. In addition to our acquisition of SED Colombia, Paragon acquired residential real estate in Las Vegas, Nevada under our newly created subsidiary Ohana Home Services, LLC. As the name indicates, we intend for the business of Ohana to expand in the arena of real estate services beyond real estate ownership. We believe our real estate investments – two residential condominiums in the heart of Las Vegas in the most luxurious non-gaming facility – were made at very favorable prices. Both units are currently under attractive rental contracts and delivering, in our view, a satisfactory return on investment.

Late last year, I assumed the added role of CEO of SI Systems, our material handling business. Over the past few years, I have written about the favorable potential for our material handling operations as a result of the "automation" of America. I have had a front row seat to the workings of SI Systems for nearly ten years and after thoughtful discussion with our Board of Directors, we felt it was in the best interest of Paragon for me to take on this role at the current time. I'm relishing the task at SI Systems and the potential opportunities ahead.

2017 Year in Review

Paragon reported pre-tax income of $4.2 million in 2017 compared with a pre-tax loss of $1.3 million in 2016. Our income in 2017 was primarily a result of $4.2 million "gain on bargain purchase" of SED Colombia. Under generally accepted accounting principles ("GAAP"), acquisitions are evaluated against the fair value of the assets acquired to determine the impact to the balance sheet and income statement. Paragon paid $1.4 million in cash to acquire a business whose net assets were deemed, based on an independent accounting analysis, to have a greater value than our purchase price, thus the “gain” recorded on the income statement.

Our acquisition of SEDC would have been made irrespective of the accounting determination. For our price, we picked up a business producing over $60 million in annual sales with modest profits that we now believe will be an even stronger business under Paragon. In the first quarter of 2018, sales are up over 25 percent compared to the 2017 quarter on a currency adjusted basis. We credit the turnaround to the able management of Ronell and SEDC’s reputation of being a distributor of choice for thousands of customers throughout the country.

SI Systems

Our material handling business experienced a decent result in 2017, but that result was tarnished by the settlement of a lawsuit related to our prior acquisition of Innovative Automation in 2013. With this settlement, we have completely closed the book on this unfortunate acquisition and head into 2018 completely unencumbered by distraction and focused on our core businesses. The settlement was painful and drained our business of valuable cash, but we believe we can now be focused without any distractions in rebuilding SI.

This June, SI Systems will celebrate 60 years in business, a claim that only a small percentage of American businesses can make. Proudly, SI Systems has operated during these six decades American owned and operated – an even rarer claim to make in the material handling business.

In last year’s letter I stated that “we continue to remain cautiously optimistic regarding the future of our material handling business. The volume of projects we are quoting is more robust than ever, many of which are substantially larger than we have seen in the past. We now must begin to win a bigger share of these opportunities.”

Currently, we are implementing initiatives and processes that are focusing on generating revenue across all aspects of the sales cycle. These initiatives consist of: a) pursuing a market strategy that will result in a more robust pipeline with projects of various sizes and durations, b) offering customers design and engineering studies, and c) entering into partnerships with logistics partners that we can work with to provide more comprehensive material handling solutions.

Our material handling operations are made up of our Production and Assembly division (PAS) and our Order Fulfilment Systems (OFS) division, which provide order fulfillment systems and dispensing solutions to customers via our suite of branded and patented products. Our PAS business provides automated material handling systems to manufacturer assembly lines and distribution center operations via our branded towline conveyance and transportation technologies and has been successfully doing so for nearly 60 years. Our PAS systems are sold primarily to end users, who then typically rely on SI for future enhancements, additions, or repairs to the system. This aftermarket business generates significant margins for us. Our customer relationships tend to be very cooperative and long-lasting and we benefit enormously from an existing installed base of high quality customers who are likely to come to us for replacement and enhancement projects for years after system installation. Our PAS business is a steady, cash generating businesses – the type of business we adore.

Our order fulfillment business consists of our branded suite of dispensing technologies including our robotic A-Frame solutions, our portable and versatile Mobile-Matic, and our unique Doc-U-spense document dispenser, which collectively can dispense over 80% of dispensable inventory today. Depending on the solution we provide, our technologies can deliver investment payback periods in as little as 12 months and a return on investment that is multiples higher. These two factors coupled with the tidal wave of American businesses looking to automate the movement of inventory creates a fertile landscape of opportunity for SI to farm.

<u>SED Colombia</u>

At the beginning of 2017, Paragon's wholly owned subsidiary Ark Investments, LLC acquired all of the outstanding stock of SED Colombia for $1.4 million.

Based in Chia, Colombia, SED International de Colombia (SEDC) is one of the top four IT distributors and the one of the largest information technology companies in Colombia. SED Colombia distributes IT hardware products that include PC's, Laptops, Servers, Workstations, Printers, Networking, Storage, Monitors, Projectors and accessories from leading manufactures like HP, Hewlett Packard Enterprise, Lenovo, Dell, Asus, Epson and others. SEDC currently has 121 employees who serve approximately 2,500 customers in over 100 cities and municipalities throughout Colombia.

In 2017, SED Colombia generated approximately $64.4 million in sales and generated approximately $450,000 in net profits compared with $67 million and $566,000, respectively, in 2016. We had expected for 2017 to be a "better" year for our distribution operations and in our view it was. In 2017 operating results were impacted by newly enacted Colombian tax reform and acquisition costs.

Our distribution business in Latin America is subject to changes in currency. SEDC transacts its business in Colombian pesos which then are converted to US dollars for financial reporting purposes. We spend no time trying to engage in hedging activities. We accept the fact our ownership of a foreign subsidiary creates currency fluctuations but more importantly, we acknowledge the reality that the long-term net results of trading the currency market are negative. In truth, our distribution business is less affected by the actual change in currency as opposed to currency *volatility*. We distribute thousands of products each day and generate consistent levels of sales regularly. A two percent change in exchange rate during the month has a greater impact on our dollar earnings compared to a four percent change in exchange rate over the course of the year.

Business is booming in 2018 for us in Latin America. On a dollar basis first quarter sales are up over 28 percent compared to the first quarter in 2017. Monthly sales have stepped up from approximately $5 million to $6 million. We look forward to the many more accomplishments and sales records from Ronell and his team.

We like the consistency of the distribution business but we operate in an industry with gross margins in mid-single digits, leaving very little room for error. In 2017, SEDC launched the Integrated Solutions and Services Business Unit to complement our hardware and software sales with a line card of IT services and integrated solutions. This business unit transforms the traditional model of just selling hardware and software into a new model of selling integrated services that include hardware and software. This results in three key variables: higher profitability (double digit margins), recurring business, and long-term relationships with customers. Some of the solutions and services we offer include business cloud solutions, IoT (internet of things), and IT professional and consulting services.

These service offerings are a natural extension to offer our existing base of over 2,500 customers who already trust us to provide them with quality products at a good price delivered when they need it. Since implementing our Services division last July, sales are steadily picking up and we believe we can achieve over $2 million in incremental higher margin sales in 2018.

Investment Activities

Marketable Securities

The following chart lists Paragon's key minority investments, comprising the substantial majority of our portfolio, as of April 30, 2018:

Security	Cost Basis	Market Value
Common Stock		
1,716 sh Meritage Hospitality	$33,685	$32,604
Fixed Income		
$1,010,000 Exco Resources, 9/15/2018, 7.50%	$538,901	$151,500
$100,000 Jones Group, 3/15/2019, 6.875%	$16,203	$14,000

In 2017, Paragon's investment portfolio declined by 22.6 percent. In addition, Paragon received dividend and interest income of approximately $104,000 and generated net realized investment gains totaling $320,000 for the year. Paragon utilized assets from its investment portfolio towards the acquisitions of SED Colombia and our real estate.

Our returns compare with an S&P 500 return of 21.8%, which includes the reinvestment of dividends. The decline in our investment portfolio was primarily due to the decline in the value of our investment in EXCO Resources bonds. Earlier this year EXCO, an oil and natural gas exploration company based in Texas, announced a voluntary restructuring of operations under the protection of Chapter 11.

Paragon acquired $1 million in face value EXCO bonds for 54 cents on the dollar, or a cost of approximately $540,000. During our holding period Paragon has collected $87,000 in interest payments for a net cost of approximately $453,000. We intend to hold our fixed income holdings in EXCO until the restructuring is completed.

As stated in previous letters, Paragon's investment policy is strictly utilized to provide an intelligent capital allocation structure for the Company's excess cash. Our approach to security investment is businesslike – we transact in securities through the lens of being part owners in businesses. If we are unable to buy entire businesses or sensibly reinvest in our existing ones, we take advantage of opportunities to invest partially in other businesses through the stock market.

While we refrain from opining on our stock price, we feel it appropriate given the meaningful business and investment additions to Paragon in 2017 to articulate our beliefs on the value of our Company. We believe the intrinsic (and replacement value) of the assets currently owned by Paragon to be worth meaningfully more than the current market price is suggesting. Of course, our opinions are just that, but we support them by our businesslike evaluation of Paragon. We begin with the most easily observable metric, net asset value, which equated to $6.0 million as of December 31, 2017. We compare this with market value, currently a fraction of net asset value.

Business assets are best valued, however, by the future free cash flows they can be expected to produce out into the future which includes capital expenditures. Business assets can also be usefully valued according to replacement cost. Compared against both valuation metrics, it's our belief that Paragon's market value is well below those two estimates of intrinsic value. In 2017 and early 2018, Paragon acquired for $1.5 million cash flow generating real estate assets that we believe are worth more than our purchase price (our opinion is based on current observable recent market transactions for similar assets). Our distribution operations were acquired for $1.4 million in cash and that business has earned nearly $1 million in combined profit in 2016 and 2017. Our material handling business has demonstrated it can generate healthy profit margins and we are moving that business in a direction to generate more consistent and growing profits.

We believe that if we continue to execute on our objectives Paragon's market price should be more reflective of the Company's intrinsic value.

As Chairman, CEO, and chief capital allocator at Paragon, I also am the Company's largest shareholder. My financial net worth and that of the Gad family is fully hitched to the Paragon wagon. I will win alongside our shareholders, not at your expense. More importantly, I will experience the greatest financial pain as a result of any deterioration in Paragon's value. I believe this alignment of interests between management and shareholders to be a fundamental tenant of long-term business success.

The Annual Meeting

The Annual Meeting will be held on Wednesday, June 27, 2018 at 9:00 A.M. EST at the Company’s headquarters, **101 Larry Holmes Drive, Suite 500, Easton, PA 18042.**

We will start the meeting promptly at 9 A.M., and we will devote the bulk of the meeting to shareholder Q&A. We highly encourage all shareholders to attend as this will provide the best forum to communicate with management. The Lehigh Valley Airport (ABE) is an about a 20-minute drive and offers several direct flights from various cities. Newark Liberty (EWR) is also an accessible airport about an hour away. We hope to see as many of you as we can. Come with hard questions!

Sincerely,

Hesham “Sham” Gad,
Chairman and Chief Executive Officer
May 15, 2018