To the Shareholders of Paragon Technologies, Inc. ("Paragon"):

Paragon's per share book value increased by 24% in 2019, to $3.99 per share, compared with $3.22 per share in 2018. Calculation of book value excludes the 20% of SED Colombia (SEDC) that we do not own. As noted in last year's letter, shares outstanding increased by 10,000 shares to 1.7 million shares as a result of an equity grant to an officer of the company. Paragon's business transformation over the past 3 years has rendered book value less relevant than before, however, it is our belief that Paragon's three businesses – SI Systems (automation), SED Colombia (distribution) and Ohana Home Services (real estate) – plus our investment portfolio are in aggregate worth more than book value based on our assessment of future earning power.

As I put the final touches on this letter, the United States and the entire world has been severely impacted by economic uncertainty as a result of the coronavirus pandemic. No one knows how long the uncertainty will last or what the ultimate impact will be. History does tell us that this crisis will ultimately pass, and so our focus is on being proactive so that we are well prepared during the storm and ready at full speed when the sun shines.

2019 Year in Review

Paragon's revenues in 2019 grew 33% to $112.9 million compared to $85.1 million in 2018. The increase in revenues reflects strong organic sales growth of our distribution operations. Paragon reported pre-tax income before income taxes and non-controlling interest of $2.1 million in 2019 compared with a pre-tax income of $1.7 million in 2018. Net income in 2019 was $1.2 million compared to net income of $1.0 million in 2018.

In 2018 new accounting rules required companies holding equities, as we do, to report any unrealized gains or losses from those equities. It's important for shareholders to understand the significance of this new rule and the impact it will have on reported future net income. To be clear, we disagree with the requirements of this rule because we view our investment horizon over many years. On any given day, equity prices move up and down based on the opinions of market participants. In the short-run these movements mean very little to us.

Volatility that creates a loss one day can lead to a gain the next. We are of the opinion that the reporting of unrealized gains or losses based on one reporting date each quarter means very little in terms of evaluating the overall performance of Paragon over the long-term. On December 31, 2018, Paragon had $56,000 of *unrealized losses* from its equity portfolio which is recorded as a deduction in net income. On December 31, 2019 we had *unrealized gains* of $113,000 from a portfolio that was very similar in construct as the previous year.

Ultimately, there will be an impact to our earnings from our investment activities, but we want shareholders to understand the impact that our *investment* results will have on our *operating* results and to consider the unrealized impact of gains for losses in the evaluation of our operating results.

Distribution

Our distribution business SEDC had a strong year in 2019 with revenues growing 36% to $105 million. Net income, after accounting for currency adjustments, grew 122% to $1.0 million compared with $450,000 in 2018.

We like the technology distribution business very much. A distributor's role is simple to define but difficult to execute successfully. Our role is to add logistical value between the manufacturer and reseller. For that value we collect a thin margin on a high volume of orders, so execution and discipline are what separates long-term success from failure. We must manage the regular purchase of hundreds of products from dozens of suppliers alongside the daily sale of those products to hundreds of customers each day. This process between the purchase and sale of inventory requires a level of discipline and competence that takes years to develop.

Furthermore, we believe the economics of the distribution business limits the entrance of new competitors. We distribute commodity products – we can't convince our customers that our HP servers are better than our competitors' HP servers. But what we can do – *and we believe we do better than most* – is provide superior logistical service across all facets of our distribution channel. We have the products our customers need when they need it. We manage our inventory prudently, managing both supply from vendors against our business assessment of future demand.

Technology products are subject to a faster rate of obsolescence than many other products. We see many competitors failing to account for such risk factors by acquiring too much inventory to capture savings only to lose those pricing benefits by lowering prices. To be sure, we are very opportunistic in our inventory purchasing and take advantage of buying opportunities when prudent to do so, with our decision anchored on our assessment of customer demand. (Earlier this month, for example, we loaded up on laptops as more and more companies in Colombia began sending employees to work from home. Amidst the business turmoil, we sold over $1 million in a single day). We believe our logistical infrastructure sets us apart from many of our competitors and believe our future performance will continue to widen the gap between our business and the competition. Our knowledge of the industry, our rational behavior, and our logistical superiority is the moat we aim to widen each day.

We continue to exploit our logistical excellence. Our Integrated Solutions and Services Business Unit, launched in 2017, leverages our existing business of selling hardware and software into selling integrated services which typically generate higher margins and a recurring revenue stream. We continued to see healthy, disciplined growth in 2019 for that business line. Additionally, we believe our brand and reputation provides us a competitive advantage. We intend to exploit those advantages at every opportunity it makes sense to do so we can continue to widen our competitive advantages.

None of the above can be achieved without competent, quality management and associates. And at SEDC, Ronell Rivera and our 165 associates are what separate us from the pack.

Automation

In 2019, SI Systems' reported sales of $7.4 million were down approximately 9% from the prior year while operating income declined to $313,000 in 2019 from $472,000 in 2018. We ended the year with over $7 million in backlog, the largest recorded backlog since current management assumed control in 2012. This strong backlog gives us momentum heading in 2020. Nonetheless, automation projects typically require several weeks or more before they are converted to purchase orders, so our key priority is to increase the number of quality projects we can quote so we can maintain a strong, growing backlog.

We are ramping up our marketing efforts, anchored by the launch of a new website we expect to see live in the coming months. We are emphasizing a greater focus on data analytics to identify common characteristics in projects that we win so that we can utilize that data effectively in identifying viable projects for SI.

As I mentioned in last year's letter, SI expanded its order fulfillment systems suite of solutions through new partnerships that allow us to now offer our customers a more robust fully automated warehouse solution. This is enabling SI Systems to pursue larger projects that alone, we are less likely to win but with a partner, we can outbid and outperform our competition. Rather than compete with a 25% probability of winning the whole pie on our own on certain complex projects, we prefer a 75% probability of success at capturing a large slice of that pie.

We experienced such an outcome in 2019 working with a large cosmetics manufacturer looking to make a multi-million-dollar automation investment. After working with the client for many months designing a solution (which we were very adequately compensated for), we realized that this customer would be better served – and so would SI – by partnering with a firm that could enhance the success of the project. Ultimately SI walked away with an order fulfillment contract for just under $2 million, one of the largest in recent years. We intend to leverage this partner model going forward, only inasmuch as it enables us to capture opportunities we may not otherwise win.

Two words describe why automation is here to stay: labor shortage. Labor is facing a historic shortage today and business owners can ill afford to wake up each day worrying about labor that can be permanently replaced with automation. Automation is stable, precise, accurate, and reliable over many years. Automation is the best outsourcer for labor today and that trend will only grow over the coming years. Automation is also, contrary to popular belief, a net positive for the future of labor as the adoption of automation will increase the demand for better, higher paying jobs.

At SI Systems, our message to our potential partners is that we can now "Automate Your Future Growth."

Real Estate

Our wholly owned subsidiary, Ohana Home Services, LLC (“Ohana”) acquired residential real estate in Las Vegas in two separate transactions in December 2017 and January 2018.

Ohana acquired its real estate for $1.5 million in cash. We acquired our real estate for income and capital appreciation purposes. 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. In 2019 all our holdings were fully leased throughout the entire year at what we believe to be very strong rental rates in the current market.

We remain very optimistic on the long-term future of Las Vegas. Notwithstanding the current healthcare crisis affecting the United States, Las Vegas continues to rank as one of the fastest growing cities in the nation with strong long-term tailwinds. Migration to Nevada is likely to grow for the foreseeable future, as both young and old are increasingly attracted to entertainment options, lower living costs, growth in high quality job opportunities, and lower taxes. Entrepreneurs are flocking to Vegas thanks to the low cost of living, fast and reliable internet connectivity, vast entertainment options, and proximity to Silicon Valley.

Marketable securities

The following chart lists Paragon’s key minority investments, as of Feb 28, 2020:

Security	Cost Basis	Market Value
Common Stock		
4,271 sh. National Security Group	$51,203	$57,658
1,595 sh. Stoneco Ltd., Cl A	$41,763	$63,624

In addition to the above, Paragon has accumulated a 2% stake in a leasing company that we are not disclosing at the current time. As of February 28, 2020, that stake was valued at $88,900.

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.

Last year I noted that “Exco Resources was undergoing a restructuring of its operations. It now appears likely, the end result for our bonds will be a debt for equity swap.” In 2019 our debt was exchanged for equity and as a result Paragon booked a realized loss of approximately $540,000 on our income statement. We received 21,087 shares of new EXCO in exchange. As a reminder, 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. So effectively our 21,087 of new EXCO stock needs to trade at a price of $21.50 to be worth the net cost basis of our liquidated bonds. That is unlikely to happen anytime soon. We currently have no intention of disposing of our EXCO holdings but achieving a gain on this investment may take some time. We were also issued an identical number of "new" bonds in the event that residual claims are determined to be available.

As Chairman, CEO, and chief capital allocator at Paragon, I also am the Company's largest shareholder and I have been adding to my open market purchases each year. My financial net worth and that of the Gad family is fully hitched to the Paragon wagon. I will benefit 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.

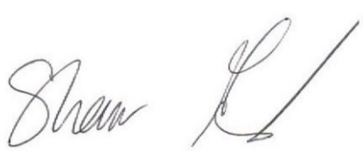
The Annual Meeting

As this letter goes to press, as a result of the coronavirus, there is no certainty as to whether our intended location will be open for business during the time of our annual meeting. The 2020 annual meeting of shareholders will take place on **Monday, May 18 at 10:30 AM PST** at the following location:

Waldorf Astoria, Las Vegas
Residential Board Room – Lobby Level
3750 S Las Vegas Blvd
Las Vegas, Nevada 89158

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. We hope to see as many of you as we can. Come with hard questions. We will announce in advance any changes to the time or place of our annual meeting.

Sincerely,



Hesham "Sham" Gad,
Chairman and Chief Executive Officer
March 25, 2020