PARAGON
TECHNOLOGIES

101 Larry Holmes Drive, Suite 500
Easton, PA 18042

Telephone: 610-252-3205
www.PGNTGROUP.com
info@pgntgroup.com
SIC Codes: 3530 and 5045

Annual Report
For the Period Ending: December 31, 2021
(the "Reporting Period")

As of December 31, 2021, the number of shares outstanding of our Common Stock was: 1,704,745

As of September 30, 2021, the number of shares outstanding of our Common Stock was: 1,704,745

As of December 31, 2020, the number of shares outstanding of our Common Stock was: 1,704,745

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: ☐ No: ☒

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: ☐ No: ☒

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period:

Yes: ☐ No: ☒

PARAGON TECHNOLOGIES, INC.
Annual Report
For the Year Ended December 31, 2021

1) Name and address(es) of the issuer and its predecessors (if any)

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

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. The Company is active and in good standing in Delaware.

Describe any trading suspension orders issued by the SEC concerning the issuer or its predecessors since inception:

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:

None

The address(es) of the issuer's principal executive office:

The Company's principal executive office is located at 101 Larry Holmes Drive, Suite 500, Easton, PA 18042.

The address(es) of the issuer's principal place of business:

Check box if principal executive office and principal place of business are the same address: ☒

Has the issuer or any of its predecessors been in bankruptcy, receivership, or any similar proceeding in the past five years?

Yes: ☐ No: ☒

2) Security Information

Trading symbol:	PGNT
Exact title and class of securities outstanding:	Common Stock
CUSIP:	69912T108
Par or stated value:	$1.00 per share

Total shares authorized:	4,000,000	as of December 31, 2021
Total shares outstanding:	1,704,745	as of December 31, 2021
Number of shares in the Public Float:	760,866	as of March 24, 2021
Total number of shareholders of record:	174	as of March 24, 2021

Transfer Agent
Broadridge Shareholder Services
Toll-free: (877) 830-4936
Toll: (720) 378-5591
Email: Kayur.Patel@broadridge.com
Address: P.O. Box 1342, Brentwood, NY 11717

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

3) Issuance History

A. Changes to the Number of Outstanding Shares

Check this box to indicate there were no changes to the number of outstanding shares within the past two completed fiscal years and any subsequent periods: ☒

B. Debt Securities, Including Promissory and Convertible Notes

Check this box if there are no outstanding promissory, convertible notes or debt arrangements: ☐

Date of note issuance	Outstanding balance ($)	Principal amount at issuance ($)	Interest accrued ($)	Maturity date	Conversion terms (e.g. pricing mechanism for determining conversion of instrument to shares)	Name of noteholder (entities must have individual with voting / investment control disclosed).	Reason for issuance (e.g. loan, services, etc.)
January 17, 2021(1)	750,000	750,000	—	October 1, 2023	N/A	Rebell Enterprises LLC(2)	Loan
January 17, 2021(1)	750,000	750,000	—	October 1, 2024	N/A	Rebell Enterprises LLC(2)	Loan

(1) In January 2021, Ohana entered into purchase agreements for two residential properties in Las Vegas, Nevada, one for a purchase price of $900,000 and another for a purchase price of $894,000, consisting of an initial down payment of $150,000 and $144,000, respectively, and a promissory note for each in the amount of $750,000. For one of the properties, a down payment of $150,000 was due and paid by March 1, 2021 and a promissory note for $750,000 was executed. The interest rate on the promissory note is 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2022 and payments continuing the same day of each consecutive quarter, until October 1, 2023. The payment due on January 1, 2022 was paid on December 31, 2021. For the second property, a down payment of $144,000 was due and paid by December 1, 2021 and a promissory note for $750,000 was executed. The interest rate on the promissory note is 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2023 and payments continuing the same day of each consecutive quarter, until October 1, 2024.
(2) The control person for Rebell Enterprises is Scott Frederick.

4) Financial Statements

A. The following financial statements were prepared in accordance with:
☒ U.S. GAAP
☐ IFRS

B. The financial statements for this reporting period were prepared by:
Name: Deborah R. Mertz
Title: Chief Financial Officer
Relationship to Issuer: Chief Financial Officer

The audited financial statements for the year ended December 31, 2021 are incorporated by reference and can be found at the end of this Annual Report. The financial statements as of and for the year ended December 31, 2021 include: (1) consolidated balance sheets, (2) consolidated statements of operations, (3) consolidated statements of comprehensive income, (4) consolidated statements of changes in stockholders' equity, (5) consolidated statements of cash flows, (6) notes to consolidated financial statements, and (7) the independent auditor’s report.

5) Issuer's Business, Products, and Services

A. Summary of the issuer's business operations

Business

Paragon Technologies and its subsidiaries engage in diverse business activities including material handling, distribution and real estate services.

Automation

SI Systems, LLC (SI Systems) is a leading supply chain and logistics manufacturer and software engineering company providing solutions to distribution centers, manufacturers, and warehouses worldwide. SI Systems provides material handling solutions that increase productivity and provide safety enhancements. Our product lines include complete order fulfillment, assembly, and product advancing systems. SI Systems also offers subsystem technologies that are easily integrated with other solutions and provides software and services for automated material handling and order processing applications.

SI Systems has two major product lines. Our Production and Assembly (PAS) product line consists of our Towline conveyance and automated guided vehicles (AGVs), which are used in manufacturing of heavy industrial products and used in warehouses to move large products. Our Order Fulfillment Solutions (OFS) product line represents our order fulfillment technologies composed of our patented A-Frame and Mobile-Matic robotic picking systems. Our OFS solutions support automated picking solutions that optimize our clients' supply chain by reducing labor expenses, increasing order picking volume and significantly improving inventory fulfillment accuracy.

SI Systems' markets are diverse. SI Systems' customers and prospects represent leading manufacturer brands and supply chain partners in the logistics services space. SI Systems sells its products directly and through integration partners.

Approximately 61% to 70% of SI Systems' business revenue was derived from new material handling system sales during the most recent three calendar years. The system sales are generally large contracts and SI Systems' dependence on these contracts can cause unexpected fluctuations in sales volume. Various external factors affect customers' decision-making process on expanding or upgrading their current production or distribution sites. 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 revenue using a cost-to-cost method based on the continuous transfer of control to the customer over time for its systems contracts, fluctuations in SI Systems' sales and earnings occur with increases or decreases in major installations.

5) Issuer's Business, Products, and Services *(Continued)*

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

Distribution

SED International de Colombia, S.A.S. (SEDC) distributes IT hardware products from 27 top worldwide leading IT manufacturers such as Hewlett Packard, Lenovo, Dell, Samsung, LG, Epson, Hitachi, and others. SEDC's business is divided into four main business units: Value, Transactional, Consumer Electronics, 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 the Value unit include servers, workstations, storage, networking, high-end printers, high-end audio visual and power protection systems.

The Transactional business unit focuses on the consumer business (retail resellers / e-tailers), as well as run rate products for Value Added Resellers selling to small and medium businesses. The top products distributed by the Transactional business unit include notebook computers, desktop computers, printers, projectors, gaming, and accessories.

The Consumer Electronics business unit began in July 2019 and covers a similar segment of the market as the Transactional business unit; however, the product profile is different. Although the Consumer Electronics business unit also focuses on resellers and e-tailers, the products distributed by this business unit are not IT products, but instead televisions, sound bars, audio/visual equipment, video games, refrigerators, washers, dryers, microwaves, and cellular phones.

The services provided by the Integrated Services business unit include managed services, Everything as a Service, printing outsourcing, electronic documents management, electronic invoicing, the internet of things, and Hitachi high capacity storage solutions products.

Real Estate

Ohana Home Services, LLC (Ohana), a wholly owned subsidiary of Paragon, acquires residential 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.

Investments

Paragon invests in businesses and securities under the Investment Management Policy. The Investment Management Policy sets forth the parameters and restrictions 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 parameters of the Investment Management Policy are made by Hesham Gad, Chairman and Chief Executive Officer.

5) Issuer's Business, Products, and Services *(Continued)*

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

<u>Recent Developments</u>

The ongoing COVID-19 pandemic has created economic uncertainty regarding our future operations across our various subsidiaries. We have experienced a slowdown in bookings, which could result in lower cash flow, revenue and operating profit in the future. In response to potential COVID-19 impacts, we have implemented cost reduction initiatives due to uncertainty. We continue to follow Centers for Disease Control and Prevention guidelines in order to ensure workplace safety for our associates. The COVID-19 pandemic continues to evolve and the extent to which COVID-19 may impact our employees, operations, customers, suppliers and financial results is unknown, as are the potential actions of people and governments around the world that could impact our operations and ability to do business. We, and certain of our customers or suppliers, may continue to be impacted by government actions, orders and policies regarding the COVID-19 pandemic, including temporary closures of non-life sustaining businesses, shelter-in-place orders, and travel, social distancing and quarantine policies, the implementation and enforcement of which vary from state to state and within Colombia. While the Company expects the effects of the pandemic to negatively impact its results of operations, cash flows and financial position, the current level of uncertainty over the economic and operational impacts of COVID-19, due to the continued evolution of the COVID-19 pandemic and responses to curb its spread, means the ultimate related financial impact cannot be reasonably estimated at this time. Even after the COVID-19 pandemic has subsided, we expect to experience adverse impacts to our businesses as a result of the sustained global economic impact of COVID-19 and related policies including a continuation of longer lead times and inflationary pressures from our suppliers that we are currently experiencing. We may also be affected by ongoing geopolitical conditions, including the Russia-Ukraine conflict, which has, among other things, negatively impacted the global economy and exacerbated ongoing supply chain disruptions.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was approved, which established the Paycheck Protection Program (PPP), which is administered by the U.S. Small Business Administration (SBA). On April 15, 2020, the Company, through its wholly owned subsidiary SI Systems, received approval for a $453,562 loan under the PPP. Under the terms of the CARES Act, PPP loan recipients can apply for, and be granted forgiveness for all or a portion of loans granted under the PPP. The Company applied for PPP loan forgiveness on November 3, 2020. The Company received notification of the forgiveness of the PPP loan and recorded it as other income for the year ended December 31, 2020.

On July 24, 2020, SI Systems received a $150,000 loan under the Economic Injury Disaster Loan (EIDL) program. Proceeds were to be used for working capital purposes. The EIDL Loan had a term of thirty years, and the interest accrued at the rate of 3.75% per annum. The balance of principal and interest was paid in full on December 14, 2021.

On August 14, 2020, SI Systems received a $15,000 grant via the Pandemic Protection Plan and the Northampton County Small Business Relief Fund. Northampton County established a COVID-19 Relief Small Business Grant Program for businesses primarily operating in the county that have fewer than 100 employees. Grant funding may be used to cover payroll costs, costs related to continuation of group health care benefits, insurance premiums, mortgage and rent payments, utility bills, working capital to cover the costs of reopening businesses that were closed due to the pandemic, expenses related to meeting guidelines for reopening, and other COVID-19-related expenses not already covered by other federal, state, or regional grant and loan programs.

5) Issuer's Business, Products, and Services *(Continued)*

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

Recent Developments *(Continued)*

In January 2021, Ohana entered into purchase agreements for two residential properties in Las Vegas, Nevada, one for a purchase price of $900,000 and another for a purchase price of $894,000, consisting of an initial down payment of $150,000 and $144,000, respectively, and a promissory note for each in the amount of $750,000. For additional information regarding the promissory notes, please see Item 3.B. above.

Foreign Currency Exchange Fluctuations

The Company is exposed to foreign currency exchange rate risk resulting from its operations in Colombia. Certain of the Company's revenues and expenses have been, and are expected to be, subject to the effect of foreign currency fluctuations, and these fluctuations may have a material adverse impact on the Company's operating results and asset values and could reduce stockholders' equity. The Company's financial results could be affected by factors such as changes in the foreign currency exchange rate or differing economic conditions in the Colombian markets as compared with the markets in the United States. The Company's earnings are affected by translation exposures from currency fluctuations in the value of U.S. dollar as compared to the Colombian peso.

Employee Retention Credit

Pursuant to the CARES Act, the Company is eligible for an employee retention credit subject to certain criteria.

The Company recognized the employee retention credit on a systematic basis over the periods in which the Company recognizes the payroll expenses for which the grant (i.e., tax credit) was intended to compensate when there is reasonable assurance (i.e., it is probable) that the Company will comply with any conditions attached to the grant and the grant (i.e., tax credit) will be received. As of December 31, 2021, the Company has accounted for the $137,991 employee retention credit received on December 9, 2021 as other income on the consolidated statement of operations.

B. Please list subsidiaries, parents, or affiliated companies

The Company has the following wholly owned subsidiaries: (1) SI Systems, LLC; (2) Ohana Home Services, LLC; and (3) ARK Investments, LLC. ARK Investments, LLC owns 80% of SEDC.

C. Describe the issuer's principal products or services

For information regarding our principal products or services and their markets, please see Section 5.A. above.

6) 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 through April 30, 2020 was 9,648 square feet. The previous leasing agreement required fixed monthly payments of $14,400 through April 30, 2020. An addendum to the lease was executed on October 10, 2019, which was effective May 1, 2020 and pursuant to which the square footage was reduced to 5,628 square feet. The addendum period is six years from May 1, 2020 to April 30, 2026. It requires fixed monthly payments of $9,063 in year one and in each subsequent year the monthly payment increases by $250.

6) Issuer's Facilities *(Continued)*

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.

On February 14, 2020, SI Systems executed a lease for warehouse space located at 1855 Weaversville Road in Allentown, Pennsylvania. The commencement date was March 15, 2020. The area covered by the lease is 4,989 square feet. The initial term is six years and there is a renewal term of one independent and successive period of five years. The lease requires fixed monthly payments of $3,198 in year one and in each subsequent year the monthly payment increases by approximately 2.00%.

On January 1, 2019, SEDC entered into a five-year lease agreement for a 44,530 square foot facility in Tocancipá (Cundinamarca) to serve as its new sales and administrative office and distribution facility. The monthly payment is the equivalent of approximately $13,062 USD.

SEDC also leased office #210 at 14707 South Dixie Highway in Palmetto Bay, Florida. The lease expired at the end of March 2021 and was not renewed. The monthly payment was $1,338. SEDC also leased one house in Colombia for the use of its President and General Manager for an aggregate monthly payment of the equivalent of approximately $921 USD. This lease expired mid-March 2021 and was not renewed.

SEDC signed a new lease for office space in Miami, Florida commencing September 1, 2021. The lease has an initial term of one year at a cost of $1,029 per month.

In November 2020, SI Systems signed a new lease for office space in Las Vegas, Nevada commencing March 1, 2021. The lease has an initial term of one year at a cost of $1,461 per month for the first six months of the term and $1,827 per month for the remaining six months of the term. The lease has been renewed for six months commencing March 1, 2022 at a cost of $2,400 per month.

7) Company Insiders (Officers, Directors, and Control Persons)

The following information is as of March 24, 2022, unless otherwise indicated.

Name of Officer/Director or Control Person	Affiliation with Company (e.g. Officer Title/Director/ Owner of more than 5%)	Residential Address (City / State Only)	Number of shares owned	Share type/class	Ownership percentage of class outstanding	Note
Hesham M. Gad	Director, Chief Executive Officer & Owner of >5%	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	461,405	Common Stock	27.1%	
Donna Van Allen & Van Allen Investments	Owner of >5%	Winter Springs, Florida	367,000	Common Stock	21.5%	Share information as of March 24, 2021 and includes additional holders sharing the same address
Kevin Ting	Owner of >5%	Mission Viejo, CA	90,352	Common Stock	5.3%	Share information as of March 24, 2021
Deborah R. Mertz	Chief Financial Officer	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	20,000	Common Stock	1.2%	
Jack H. Jacobs	Director	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	5,740	Common Stock	0.3%	
Samuel S. Weiser	Director	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	5,740	Common Stock	0.3%	

7) Company Insiders (Officers, Directors, and Control Persons) *(Continued)*

Name, Other Positions or Offices With the Company and Principal Occupation for Past Five Years	Director Since	Age
Hesham M. Gad	2010	43

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 2010. From 2013 to 2017, Mr. Gad served as Chairman and CEO of SED International Holdings, Inc., a multinational distributor of IT and computing products.

Mr. Gad is the author of "The Business of Value Investing: Six Essential Elements to Buying Companies Like Warren Buffett." Mr. Gad is a graduate of the University of Georgia and the Stanford University Graduate School of Business Executive Program.

Jack H. Jacobs	2012	76

Jack H. Jacobs is the Melcher Family Senior Fellow of Politics and Professor of Humanities and Public Affairs at the United States Military Academy at West Point, where he has been teaching since 2005, and 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 over 20 years. He has served as an on-air military analyst for NBC News since 2002, where he was an Emmy nominee in 2010 and 2011. He was also a member of the team that produced the segment "Iraq: The Long Way Out," which won the 2011 Murrow Award. Colonel 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.

Colonel 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. Colonel Jacobs has been a member of the Board of Directors of Datatrak International, Inc. (OTCMKTS: DTRK) since 2016 and Resonant Inc. (Nasdaq: RESN) since 2018. From July 2018 to October 2020, Colonel Jacobs served as a member of the Board of Directors of Ballantyne Strong, Inc. (NYSE American: BTN); from 2007 to 2012, he 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, Colonel Jacobs served on the board of SED International Holdings, Inc. He was previously a director of Premier Exhibitions, Inc. Colonel Jacobs is a member of the Board of Trustees of the USO of New York. He is the author of the book "If Not Now, When?: Duty and Sacrifice in America's Time of Need." Colonel Jacobs received a Bachelor of Arts and a Master's degree from Rutgers University.

7) Company Insiders (Officers, Directors, and Control Persons) *(Continued)*

Name, Other Positions or Offices With the Company and Principal Occupation for Past Five Years	Director Since	Age
Samuel S. Weiser	2012	62

Samuel S. Weiser is currently the CEO of Axess Equity Partners, LLC, a privately held business focused on sourcing unique private equity, real estate and investment funds catering to family offices and high net worth investors. Mr. Weiser is also Founder, President and Chief Executive Officer of Foxdale Management LLC, a consulting firm that provides operational consulting, strategic planning, and litigation support services in securities related disputes, which has been operating since 2003. Through Foxdale, he serves as the Chief Financial Officer for WR Group Inc., a consumer products company focused on health and beauty industry segments. He has served as the Chief Financial Officer of Altsmark, a software solution firm for the private capital sector since January 2021. He is also the Founder and CEO of JMP OppZone Services, LLC, a fund administration and business support services firm focused exclusively on supporting investment activities in designated Opportunity Zones which were created as part of the Tax Cuts and Jobs Act of 2017 to drive investment into depressed areas of the country. JMP began operations in May 2019. From August 2009 until April 2015, he was a member of the Board of Directors and from August 2014 until April 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, Inc. from November 2011 until June 2014. Mr. Weiser was a member of SED International Holdings, Inc.'s Board of Directors from October 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 M. Gad	43	Chief Executive Officer, Paragon Technologies
Deborah R. Mertz	65	Chief Financial Officer, Paragon Technologies

Deborah R. Mertz is an accounting professional with over 40 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 held various other senior

7) Company Insiders (Officers, Directors, and Control Persons) *(Continued)*

accounting positions. Ms. Mertz is a CPA and has a MBA from Rider University and a B.S. in Accounting from King's College. Ms. Mertz has notified the Company of her intention to retire from all positions with the Company effective April 30, 2022.

Hung M. Do is joining the Company in April 2022 and will serve as the Chief Financial Officer of the Company effective April 30, 2022. Mr. Do has more than 25 years of international, financial and operations experience. Prior to joining Paragon, Mr. Do served as the President of B-Cidal, a life-science start up with a safe-acid technology, from February 2011 to April 2022. Before that, Mr. Do spent over 15 years in progressive senior Finance & Accounting positions for blue chip companies such as Johnson & Johnson and Procter & Gamble. Mr. Do has a wide range of finance experiences, from cost accounting to corporate development in a wide range of industries, from consumer products, medical devices, to software and life-science. Mr. Do holds an MBA in Finance from the University of Rochester and a B.S. in Engineering from Boston University.

8) Legal/Disciplinary History

A. Please identify whether any of the persons or entities listed above have, in the past 10 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 past 10 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 past 10 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 past 10 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.

8) Legal/Disciplinary History *(Continued)*

The executive officers and directors of the Company have not, in the past 10 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.

The Company has no information regarding beneficial owners of more than 5% of its common stock other than Mr. Gad, the Chief Executive Officer and the Chairman of the Company's Board of Directors.

B. Describe briefly any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

There have been no material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the issuer or any of its subsidiaries is a party or of which any of their property is a subject.

9) Third Party Providers

Please provide the name, address, telephone number, and e-mail address of each of the following outside providers:

Securities Counsel:

Name:	Derek D. Bork
Firm:	Thompson Hine LLP
Address 1:	3900 Key Center, 127 Public Square
Address 2:	Cleveland, Ohio 44114-1291
Phone:	(216) 566-5500
Email:	Derek.Bork@thompsonhine.com

Accountant or Auditor:

Name:	Danielle Preston
Firm:	RSM US LLP
Address 1:	518 Township Line Rd, Suite 300
Address 2:	Blue Bell, PA 19422
Phone:	(215) 641-8600
E-mail:	Danielle.Preston@rsmus.com

Investor Relations:
None.

9) Third Party Providers *(Continued)*

Other Service Providers:

Provide the name of any other service provider(s) that assisted, advised, prepared, or provided information with respect to this disclosure statement. This includes counsel, broker-dealer(s), advisor(s) or consultant(s) that provided assistance or services to the issuer during the reporting period.

Name:	Jose Luis Salgado
Firm:	RSM Colombia
Nature of Services:	Statutory Auditor: Colombia
Address 1:	Avenida Calle 26 N 69D – 91
Address 2:	Of. 303 / 306 / 702A Torre Peatonal
Address 3:	Centro Empresarial Arrecife
Address 4:	Bogotá, Colombia
Phone:	+57 (1) 410 4122
E-mail:	jose.salgado@rsmco.co

10) Issuer Certification

Principal Executive Officer

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

1. I have reviewed this annual 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.

March 24, 2022

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

Principal Financial Officer

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

1. I have reviewed this annual 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.

March 24, 2022

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

Paragon Technologies, Inc. and Subsidiaries

Annual Report

Consolidated Financial Statements

December 31, 2021

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Annual Report for the Year Ended December 31, 2021

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Independent Auditor's Report

Board of Directors
Paragon Technologies, Inc.

Opinion
We have audited the consolidated financial statements of Paragon Technologies, Inc. and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, based on our audits and the report of the other auditors, the accompanying financial statements present fairly, in all material respects, the financial position of Paragon Technologies, Inc. and its subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2021 in accordance with accounting principles generally accepted in the United States of America.

We did not audit the financial statements of SED International de Colombia (SED Colombia), an 80 percent-owned subsidiary, which statements reflect total assets constituting 81 percent and 77 percent, respectively, of consolidated total assets at December 31, 2021 and 2020, and total revenues constituting 95 percent, 90 percent and 93 percent, respectively, of consolidated total revenues for each of the three years in the period ended December 31, 2021. Those statements, which were prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, were audited by other auditors, whose report has been furnished to us. We have applied audit procedures on the conversion adjustments to the financial statements of SED Colombia, which conform those financial statements to accounting principles generally accepted in the United States of America. Our opinion, insofar as it relates to the amounts included for SED Colombia, prior to these conversion adjustments, is based solely on the report of the other auditors.

Basis for Opinion
We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Paragon Technologies, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Paragon Technologies, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are issued (or within one year after the date that the financial statements are available to be issued when applicable).

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Paragon Technologies, Inc.'s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Paragon Technologies, Inc.'s ability to continue as a going concern for a reasonable period.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

RSM US LLP

Blue Bell, Pennsylvania
March 24, 2022

Paragon Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2021 and 2020
(In Thousands, Except Share Data)

	December 31, 2021	December 31, 2020
Assets		
Current Assets		
Cash and cash equivalents	**$ 3,875**	$ 3,355
Trade accounts receivables, net	**19,292**	18,099
Contract assets	**3**	403
Prepaid expenses and other current assets	**3,991**	2,873
Inventories		
Raw materials	**182**	127
Finished goods	**19,441**	11,307
Total Current Assets	**46,784**	36,164
Property and Equipment		
Real estate	**3,294**	1,500
Machinery and equipment	**622**	845
Software	**491**	513
Land	**14**	17
Leasehold improvements	**273**	318
Capital additions in process	**102**	14
Total Property and Equipment	**4,796**	3,207
Accumulated depreciation	**(1,314)**	(1,227)
Property and Equipment, Net	**3,482**	1,980
Other Assets		
Marketable securities	**875**	545
Operating lease right of use assets, net	**2,006**	2,907
Intangible assets, net	**347**	414
Deferred tax asset	**960**	523
Total Other Assets	**4,188**	4,389
Total Assets	**$ 54,454**	$ 42,533

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets
December 31, 2021 and 2020
(In Thousands, Except Share Data)

	December 31, 2021	December 31, 2020
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**$ 25,784**	$ 15,790
Contract liabilities	**2,472**	1,847
Accrued salaries, wages, and commissions	**387**	473
Accrued product warranties	**82**	76
Income taxes payable	**2,239**	1,393
Accrued other liabilities	**2,105**	1,401
Operating lease liabilities	**1,002**	1,070
Bank loan, line of credit, net	**3,365**	6,699
Promissory note	**281**	-
Total Current Liabilities	**37,717**	28,749
Long-Term Liabilities		
Operating lease liabilities, net of current	**1,005**	1,832
SBA EIDL loan, net of current	**-**	150
Promissory note, net of current	**1,125**	-
Total Long-Term Liabilities	**2,130**	1,982
Total Liabilities	**39,847**	30,731
Commitments and Contingencies (Notes 1 and 10)		
Stockholders' Equity		
Common stock, $1 par value; authorized 4,000,000 shares; issued and outstanding 1,704,745 shares	**1,705**	1,705
Additional paid-in capital	**3,500**	3,500
Retained earnings	**9,083**	5,732
Accumulated other comprehensive loss	**(1,905)**	(739)
Total Paragon Technologies, Inc. and Subsidiaries Stockholders' Equity	**12,383**	10,198
Noncontrolling interest in subsidiary	**2,224**	1,604
Total Stockholders' Equity	**14,607**	11,802
Total Liabilities and Stockholders' Equity	**$ 54,454**	$ 42,533

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations
For the Years Ended December 31, 2021, 2020, and 2019
(In Thousands, Except Share and Per Share Data)

	December 31, 2021	December 31, 2020	December 31, 2019
Net Sales	**$ 141,553**	$ 107,998	$ 112,893
Cost of Sales	**129,193**	96,341	102,397
Gross Profit on Sales	**12,360**	11,657	10,496
Operating Expenses			
Selling, general, and administrative expenses	**5,841**	6,232	7,404
Product development costs	**13**	1	2
Total Operating Expenses	**5,854**	6,233	7,406
Operating Income	**6,506**	5,424	3,090
Other Income (Expense)			
Interest income	**16**	11	24
Interest expense	**(310)**	(629)	(555)
Employee retention credit	**138**	-	-
Realized gain (loss) on investment, marketable securities	**(325)**	264	(576)
Unrealized gain (loss) on investment, equity securities	**(110)**	60	113
Gain on sale of fixed assets	**1**	-	-
PPP loan forgiveness	**-**	454	-
EIDL advance forgiveness	**-**	10	-
Grant income	**54**	18	-
Total Other Income (Expense)	**(536)**	188	(994)
Income before taxes and noncontrolling interest	**5,970**	5,612	2,096
Income tax expense	**1,899**	1,764	850
Net income before noncontrolling interest	**4,071**	3,848	1,246
Net income attributable to noncontrolling interest	**720**	247	254
Net Income Attributable to Paragon Technologies Inc. and Subsidiaries	**$ 3,351**	$ 3,601	$ 992
Basic and Diluted Income per Share	**$ 1.97**	$ 2.11	$ 0.58
Weighted Average Shares Outstanding	**1,704,745**	1,704,745	1,704,526
Dilutive effect of stock options	**-**	-	-
Weighted Average Shares Outstanding Assuming Dilution	**1,704,745**	1,704,745	1,704,526

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2021, 2020, and 2019
(In Thousands)

	December 31, 2021	December 31, 2020	December 31, 2019
Net Income	**$ 4,071**	$ 3,848	$ 1,246
Other Comprehensive Income			
Unrealized income on debt securities, net of tax	**-**	-	359
Foreign currency translation	**(1,166)**	(198)	(28)
Comprehensive Income	**$ 2,905**	$ 3,650	$ 1,577

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity
For the Years Ended December 31, 2021, 2020, and 2019
(In Thousands, Except Share and Per Share Data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
Balance at January 1, 2019	1,694,745	$ 1,695	$ 3,500	$ 1,139	$ (872)	$ 1,103	$ 6,565
Net income	-	-	-	992	-	254	1,246
Net change in unrealized loss on debt securities, net of tax	-	-	-	-	359	-	359
Foreign currency translation	-	-	-	-	(28)	-	(28)
Stock grant to employee	10,000	10	-	-	-	-	10
Balance at December 31, 2019	1,704,745	1,705	3,500	2,131	(541)	1,357	8,152
Net income	-	-	-	3,601	-	247	3,848
Foreign currency translation	-	-	-	-	(198)	-	(198)
Balance at December 31, 2020	1,704,745	1,705	3,500	5,732	(739)	1,604	11,802
Net income	**-**	**-**	**-**	**3,351**	**-**	**720**	**4,071**
Distribution	**-**	**-**	**-**	**-**	**-**	**(100)**	**(100)**
Foreign currency translation	**-**	**-**	**-**	**-**	**(1,166)**	**-**	**(1,166)**
Balance at December 31, 2021	**1,704,745**	**$ 1,705**	**$ 3,500**	**$ 9,083**	**$ (1,905)**	**$ 2,224**	**$ 14,607**

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021, 2020, and 2019
(In Thousands)

	December 31, 2021	December 31, 2020	December 31, 2019
Cash Flows from Operating Activities			
Net income	**$ 4,071**	$ 3,848	$ 1,246
Adjustments to reconcile net income to net cash provided by (used in) operating activities			
Depreciation of property and equipment	**400**	311	286
Amortization of intangible assets	**67**	68	67
Amortization of the right of use assets	**901**	(1,060)	(615)
Change in lease liability	**(896)**	1,048	622
PPP loan forgiveness	**-**	(454)	-
Realized (gain) loss on investments	**325**	(264)	576
Unrealized (gain) loss on investments	**110**	(60)	(113)
Gain on sale of property and equipment	**(1)**	-	-
Stock based compensation	**-**	-	10
Deferred taxes	**(437)**	72	(371)
(Increase) decrease in assets			
Trade accounts receivables, net	**(1,193)**	(3,103)	(916)
Contract assets	**400**	(283)	218
Inventories	**(8,189)**	9,995	(8,071)
Prepaid expenses and other current assets	**(1,118)**	1,320	(1,127)
Increase (decrease) in liabilities			
Accounts payable	**9,994**	(10,280)	6,051
Contract liabilities	**625**	120	437
Accrued salaries, wages, and commissions	**(86)**	104	59
Income tax payable	**846**	113	500
Accrued product warranties	**6**	5	(33)
Accrued other liabilities	**704**	(185)	569
Net Cash Provided by (Used in) Operating Activities	**6,529**	1,315	(605)
Cash Flows from Investing Activities			
Purchases of property and equipment	**(1,992)**	(276)	(680)
Proceeds from sale of property and equipment	**1**	-	-
Purchases of investments	**(2,303)**	(1,730)	(196)
Proceeds from sale of investments	**1,538**	1,819	57
Net Cash Used in Investing Activities	**(2,756)**	(187)	(819)
Cash Flows from Financing Activities			
Borrowings of bank loan, line of credit, net	**(3,334)**	180	1,542
Borrowings (repayments) of SBA EIDL loan	**(150)**	150	-
Noncontrolling interest distribution	**(100)**	-	-
Borrowings of PPP loan	**-**	454	-
Borrowings on promissory note	**1,406**	-	-
Net Cash (Used in) Provided by Financing Activities	**(2,178)**	784	1,542

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc.

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2021, 2020, and 2019
(In Thousands)

	December 31, 2021	December 31, 2020	December 31, 2019
Effect of Exchange Rates on Cash and Cash Equivalents	**$ (1,075)**	$ (160)	$ (37)
Increase in Cash and Cash Equivalents	**520**	1,752	81
Cash and Cash Equivalents at Beginning of Period	**3,355**	1,603	1,522
Cash and Cash Equivalents at End of Period	**$ 3,875**	$ 3,355	$ 1,603
Supplemental Disclosures of Cash Flow Information			
Cash paid during the period for interest expense	**$ 338**	$ 601	$ 506
Income taxes	**$ 373**	$ 604	$ 81
Supplemental Disclosure of Noncash Investing Activities			
Mark to market on available for sale securities, gross	**$ -**	$ -	$ 384
Supplemental Disclosure of Noncash Operating, Investing, and Financing Activities			
Operating leases (Note 1)			

See accompanying notes to consolidated financial statements.

Note 1 - Description of Business and Summary of Significant Accounting Policies

Description of Business

Paragon Technologies, Inc. (Paragon) and its subsidiaries (collectively, the Company) engage in diverse business activities including material handling, distribution, and real estate services.

Automation

SI Systems, LLC (SI Systems) is a leading supply chain and logistics manufacturer and software engineering company providing solutions to distribution centers, manufacturers, and warehouses worldwide. SI Systems provides material handling solutions that increase productivity and provide safety enhancements. SI Systems' product lines include complete order fulfillment, assembly, and product advancing systems. SI Systems also offers subsystem technologies that are easily integrated with other solutions and provides software and services for automated material handling and order processing applications.

SI Systems has two major product lines. The Production and Assembly (PAS) product line consists of Towline conveyance and automated guided vehicles (AGVs), which are used in manufacturing of heavy industrial products and used in warehouses to move large products. The Order Fulfillment Solutions (OFS) product line represents order fulfillment technologies composed of the patented A-Frame and Mobile-Matic robotic picking systems. The OFS solutions support automated picking solutions that optimize clients’ supply chain by reducing labor expenses, increasing order picking volume and significantly improving inventory fulfillment accuracy.

SI Systems' markets are diverse. SI Systems' customers and prospects represent leading manufacturer brands and supply chain partners in the logistics services space. SI Systems sells its products directly and through integration partners.

Approximately 61% to 70% of SI Systems' business revenue was derived from new material handling system sales during the most recent three calendar years. The system sales are generally large contracts and SI Systems' dependence on these contracts can cause unexpected fluctuations in sales volume. Various external factors affect customers' decision-making process on expanding or upgrading their current production or distribution sites. 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 revenue using a cost-to-cost method based on the continuous transfer of control to the customer over time for its systems contracts, fluctuations in SI Systems' sales and earnings occur with increases or decreases in major installations.

Distribution

SED International de Colombia, S.A.S. (SEDC) distributes IT hardware products from 27 top worldwide leading IT manufacturers such as Hewlett Packard, Lenovo, Dell, Samsung, LG, Epson, Hitachi, and others. SEDC's business is divided into four main business units: Value, Transactional, Consumer Electronics, and Integrated Services.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Distribution (continued)

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 the Value unit include servers, workstations, storage, networking, high-end printers, high-end audio visual, and power protection systems.

The Transactional business unit focuses on the consumer business (retail resellers / e-tailers), as well as run rate products for Value Added Resellers selling to small and medium businesses. The top products distributed by the Transactional business unit include notebook computers, desktop computers, printers, projectors, gaming, and accessories.

The Consumer Electronics business unit began in July 2019 and covers a similar segment of the market as the Transactional business unit; however, the product profile is different. Although the Consumer Electronics business unit also focuses on resellers and e-tailers, the products distributed by this business unit are not IT products, but instead televisions, sound bars, audio/visual equipment, video games, refrigerators, washers, dryers, microwaves, and cellular phones.

The services provided by the Integrated Services business unit include managed services, Everything as a Service, printing outsourcing, electronic documents management, electronic invoicing, the internet of things, and Hitachi high capacity storage solutions products.

Real Estate

Ohana Home Services, LLC (Ohana) acquires residential 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.

Investments

Paragon invests in businesses and securities under the Investment Management Policy. The Investment Management Policy sets forth the parameters and restrictions 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 parameters of the Investment Management Policy are made by Hesham Gad, Chairman and Chief Executive Officer.

Concentrations of Credit Risk

In the years ended December 31, 2021, 2020, and 2019, the Company had one customer that individually accounted for 12.6%, 12.1%, and 16.2% of sales, respectively.

As of December 31, 2021, one customer individually owed the Company 14% of trade accounts receivables. As of December 31, 2020, no customer individually accounted for greater than 10.0% of total trade accounts receivables.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Concentrations of Credit Risk (continued)

The Company maintains its bank deposit accounts which, at times, may exceed insured limits at regulatory insured agencies. Investment balances are held in broker accounts and may be in excess of SIPC (Securities Investor Protection Corporation) 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. (SEDC).

Use of Estimates

The preparation of the consolidated financial statements in accordance 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 consolidated 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 consolidated 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 Receivables and Allowance for Doubtful Accounts

Trade accounts receivables 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 as of December 31, 2021 and 2020 was $276,256 and $123,203, respectively.

Note 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 for SEDC, inventories consist of finished goods. Inventories are stated at the lower of cost (first-in, first-out method) or net realizable value. Certain SEDC vendors allow for either return of goods within a specified period (usually 45 to 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 (a) are not protected by vendor agreements from risk of loss and (b) 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

Unrealized gains and losses for equity securities are included in earnings. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings.

The approximate fair value of equity securities as of December 31, 2021 and 2020 were as follows (in thousands):

	Equity Securities			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021	**$ 862**	**$ 115**	**$ (102)**	**$ 875**
December 31, 2020	$ 423	$ 137	$ (15)	$ 545

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Marketable Securities (continued)

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.

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 December 31, 2021 and 2020, were as follows (in thousands):

	Total Marketable Securities			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021	**$ 875**	**$ 875**	**$ -**	**$ -**
December 31, 2020	$ 545	$ 545	$ -	$ -

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment acquired in business combinations are recorded at fair value; additions are recorded at cost. Property and equipment 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 three to seven years and 15 years for real estate. 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.

Leases

The Company adopted Accounting Standards Update (ASU) 2016-02, *Leases*, and all the related amendments (collectively Accounting Standards Codification (ASC) 842) on January 1, 2019 using a modified retrospective transition approach for all leases existing at January 1, 2019, the date of the initial application.

ASC 842 provides for a number of optional practical expedients in transition. The Company elected the practical expedients, which permitted the Company to not reassess prior conclusions about lease identification, lease classification, and initial direct costs under ASC 842. The Company did not elect the "use of hindsight" practical expedient to determine the lease term or in assessing the likelihood that a lease purchase option will be exercised, allowing it to carry forward the lease term as determined prior to adoption of ASC 842.

ASC 842 also provides practical expedients for an entity's ongoing accounting. The Company elected the short-term lease recognition exemption for all leases that qualify. A short-term lease is one with a term of 12 months or less, including any optional periods that are reasonably certain of exercise. For those leases that qualify, the exemption allows the Company to not recognize right-of-use (ROU) assets or lease liabilities, including not recognizing ROU assets or lease liabilities for existing short-term leases at transition. Short-term lease costs are recognized as rent expense on a straight-line basis over the lease term consistent with the Company's prior accounting. The Company also elected the practical expedient to not separate lease and non-lease components for all current lease categories.

The Company recognized operating lease liabilities of $1.15 million based on the present value of the remaining minimum rental payments determined under prior lease accounting standards and corresponding ROU assets of $1.15 million at adoption.

For arrangements where the Company is the lessor, the adoption of ASC 842 did not have a material impact on its consolidated financial statements as the majority of its leases are operating leases embedded within managed services contracts. ASC 842 provides a practical expedient for lessors in which the lessor may elect, by class of underlying asset, to not separate non-lease components from the associated lease component and, instead, to account for these components as a single component if both of the following are met: (a) the timing and pattern of transfer of the non-lease component(s) and associated lease component are the same and (b) the lease component, if accounted for separately, would be classified as an operating lease.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Leases (continued)

The accounting under the practical expedient depends on which component(s) is predominant in the contract. The Company has elected the above practical expedient and determined that the lease components are predominant and is accounting for the sublease per the guidance of ASC 842-30.

The Company leases certain office, factory, and warehouse space, land, and other equipment, principally under non-cancelable operating leases. The Company had no finance type leases as of the date of initial application, or at December 31, 2021 or 2020.

The Company determines if an arrangement is a lease at inception of the contract. The Company's key decisions in determining whether a contract is or contains a lease include establishing whether the supplier has the ability to use other assets to fulfill its service or whether the terms of the agreement enable the Company to control the use of a dedicated asset during the contract term. In the majority of the Company's contracts where it must identify whether a lease is present, it is readily determinable that the Company controls the use of the assets and obtains substantially all of the economic benefit during the term of the contract.

ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The Company's lease payments are typically fixed or contain fixed escalators. The Company has elected to not separate lease and non-lease components for all of its current lease categories; therefore, all consideration is included in the lease liabilities.

For the Company's leases that do not include an implicit rate, the Company uses its incremental borrowing rates based on the information available at the commencement date in determining the present value of future payments. The Company's incremental borrowing rates are based on the term of the lease, the economic environment of the lease, and the effect of collateralization.

The Company's lease terms range from one to six years and may include options to extend the lease or terminate the lease after the initial non-cancelable term. The Company does not include options in the determination of the lease term for the majority of leases as sufficient economic factors do not exist that would compel it to continue to use the underlying asset beyond the initial non-cancelable term.

Lease related assets and liabilities are separately identified on the consolidated balance sheets as operating lease right of use assets, net and operating lease liabilities.

The components of lease expense for the years ended December 31, 2021, 2020, and 2019 were as follows (in thousands):

	2021	2020	2019
Lease Expense			
Operating lease cost	**$ 1,125**	$ 743	$ 472
Short-term lease cost	**10**	42	81
	$ 1,135	$ 785	$ 553

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Leases (continued)

Other information related to leases for the years ended December 31, 2021, 2020, and 2019 were as follows (in thousands):

	2021	2020	2019
Supplemental Cash Flow Information			
Cash used for operating activities related to operating leases	**$ 1,057**	$ 776	$ 466
Operating Lease Right of Use Assets Obtained in Exchange for Lease Liabilities			
Operating leases	**$ 376**	$ 1,737	$ 2,197
Weighted Average Remaining Lease Terms (Years)			
Operating leases	**2.5**	3.2	4.4
Weighted Average Discount Rate			
Operating leases	**5.5%**	5.6%	6.8%

Future lease payments as of December 31, 2021 were as follows (in thousands):

2022	**$ 1,027**
2023	**723**
2024	**202**
2025	**168**
2026	**50**
Total Lease Payments	**2,170**
Interest	**(163)**
Present Value of Lease Liabilities	**$ 2,007**

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

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, both of which have a useful life of ten years. The details of the intangible assets and the related amortization are shown in Note 5.

Long-Lived Assets

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 recognized in the years ended December 31, 2021 or 2020.

Foreign Currency Translation

The financial statements of the foreign operations are measured in their local currency and then translated to U.S. dollars. All consolidated balance sheets accounts have been translated using the current rate of exchange at the consolidated balance sheets 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. Realized foreign currency transaction gains and losses are included in the accompanying consolidated statements of operations.

Revenue and Cost Recognition

The primary revenue sources for SI Systems are fixed price systems contracts, sales of parts or equipment, and individual support service contracts. SI Systems recognizes revenue using the following steps:

A. Identification of the contract with a customer;

B. Identification of the performance obligations in the contract;

C. Determination of the transaction price;

D. Allocation of the transaction price to the performance obligations in the contract; and

E. Recognition of revenue when, or as, performance obligations are satisfied.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Revenue on a significant portion of SI Systems' contracts is recognized using a cost to cost method based on the continuous transfer of control to the customer over time. SI Systems transfers control for the system contracts, in two ways: (1) SI Systems' performance creates or enhances an asset that the customer controls as the customized asset is created or enhanced for the Towline brand and (2) SI Systems has an enforceable right to payment for both the Towline and Dispensing brands. The entire contract is the performance obligation. Typically, the Company would not sell the design, implementation, and installation individually. In addition, the warranty would not be sold separately and it is not a service agreement. 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. The Company has 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 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 or 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.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

For SI Systems' 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 Systems' standard sales terms that title to the goods transfers 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.

SI Systems offers its Order Fulfillment customers support contracts. 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. For SI Systems' 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 is recognized ratably over the course of the contract term. SI Systems 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 Systems' software support service (in the form of availability to the customer) is provided over the life of the contract and revenue is recognized accordingly.

SEDC recognizes revenue from contracts with customers under ASC 606. The primary revenue source for SEDC revenue is distribution of IT hardware products.

SEDC recognizes revenue using the following steps:

A. Identification of the contract with a customer;

B. Identification of the performance obligations in the contract;

C. Determination of the transaction price;

D. Allocation of the transaction price to the performance obligations in the contract; and

E. Recognition of revenue when, or as, performance obligations are satisfied.

SEDC's revenues primarily result from the sale of various technology products and services. SEDC recognizes revenue as control of products is transferred to customers, which generally happens upon shipment. Products sold by SEDC are delivered via shipment from SEDC's facilities or by electronic delivery of keys for non-hardware products. SEDC considers customer purchase orders, which in some cases are governed by master agreements, to be the contracts with a customer. All revenue is generated from contracts with customers. The Company considers shipping as costs to fulfill the sales of products. Shipping revenue is included in net sales when control of the product is transferred to the customer, and the related shipping costs are included in cost of sales. Shipping is not considered a separate performance obligation, but is part of the product sales.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

For SEDC's integrated services contracts, the performance obligation is to lease equipment and related technology (e.g., antivirus software) for a specified number of months per the contract. The customer is invoiced monthly and revenue and the related cost are recognized in the same month. Therefore, there is no contract asset or liability related to the integrated services.

Taxes imposed by governmental authorities on the Company's revenue producing activities with customers, such as value added tax, are pass through amounts and are not recorded in the consolidated statements of operations.

The Company disaggregates its revenue from contracts with customers by geographic location, major product lines, and timing of revenue recognition. See details in the tables below for the years ended December 31, 2021, 2020 and 2019.

Disaggregation of Total Net Sales (in Thousands)

	Year Ended December 31, 2021			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 6,727	$ -	$ 104	$ 6,831
Latin America	11	134,633	-	134,644
Europe and Asia	78	-	-	78
	$ 6,816	$ 134,633	$ 104	$ 141,553
Major Goods/Service Lines				
Material handling systems	$ 4,146	$ -	$ -	$ 4,146
Software support	1,101	-	-	1,101
Parts and equipment	1,569	-	-	1,569
Transactional	-	96,814	-	96,814
Consumer electronics	-	16,975	-	16,975
Value	-	16,950	-	16,950
Services	-	3,894	-	3,894
Residential real estate rental income	-	-	104	104
	$ 6,816	$ 134,633	$ 104	$ 141,553
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 1,101	$ 133,655	$ -	$ 134,756
Goods and services transferred over time	5,715	978	104	6,797
	$ 6,816	$ 134,633	$ 104	$ 141,553

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Disaggregation of Total Net Sales (in Thousands) (continued)

	Year Ended December 31, 2020			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 10,831	$ -	$ 103	$ 10,934
Latin America	3	96,930	-	96,933
Europe and Asia	131	-	-	131
	$ 10,965	$ 96,930	$ 103	$ 107,998
Major Goods/Service Lines				
Material handling systems	$ 7,611	$ -	$ -	$ 7,611
Software support	827	-	-	827
Parts and equipment	2,527	-	-	2,527
Transactional	-	65,463	-	65,463
Consumer electronics	-	12,874	-	12,874
Value	-	14,298	-	14,298
Services	-	4,295	-	4,295
Residential real estate rental income	-	-	103	103
	$ 10,965	$ 96,930	$ 103	$ 107,998
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 2,527	$ 96,536	$ -	$ 99,063
Goods and services transferred over time	8,438	394	103	8,935
	$ 10,965	$ 96,930	$ 103	$ 107,998

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Disaggregation of Total Net Sales (in Thousands) (continued)

	Year Ended December 31, 2019			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 6,914	$ -	$ 102	$ 7,016
Latin America	4	105,351	-	105,355
Europe and Asia	522	-	-	522
	$ 7,440	$ 105,351	$ 102	$ 112,893
Major Goods/Service Lines				
Material handling systems	$ 5,053	$ -	$ -	$ 5,053
Software support	728	-	-	728
Parts and equipment	1,659	-	-	1,659
Transactional	-	73,402	-	73,402
Consumer electronics	-	13,301	-	13,301
Value	-	17,761	-	17,761
Services	-	887	-	887
Residential real estate rental income	-	-	102	102
	$ 7,440	$ 105,351	$ 102	$ 112,893
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 1,659	$ 105,009	$ -	$ 106,668
Goods and services transferred over time	5,781	342	102	6,225
	$ 7,440	$ 105,351	$ 102	$ 112,893

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

Revenue and Cost Recognition (continued)

Contract Balances (in Thousands)

	December 31, 2021	December 31, 2020
Trade accounts receivables, net	**$ 19,292**	$ 18,099
Contract assets	**3**	403
Contract liabilities	**2,472**	1,847

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 is less than a year, applying practical expedients available under the accounting standards.

SI Systems records advance payments for unearned support contracts in the consolidated balance sheets as a contract liability that is 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.

Revenue recognized during the year ended December 31, 2021, which was previously included in contract liabilities as of December 31, 2020, was $1,798 (in thousands).

Revenue recognized during the year ended December 31, 2020, which was previously included in contract liabilities as of December 31, 2019, was $1,575 (in thousands).

There were no impairment losses recognized on customer receivables or contract assets during the years ended December 31, 2021, 2020, and 2019. 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.

Product Development Costs

The Company expenses product development costs as incurred.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

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 December 31
2021	**$ 76**	**$ 6**	**$ -**	**$ 82**
2020	71	5	-	76

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the consolidated financial statements 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.

SI Systems 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 2018.

SEDC is no longer subject to income tax examinations for tax years ended before December 31, 2015. 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.

Note 1 - Description of Business and Summary of Significant Accounting Policies (continued)

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.

Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2021, 2020, and 2019 are based on the weighted average number of shares outstanding.

Note 2 - Segment Information

Segment information for the year ended December 31, 2021 was as follows (in thousands):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net sales to unaffiliated customers	$ 6,816	$ 134,633	$ 104	$ -	$ -	$ 141,553
Gross profit	$ 2,829	$ 9,427	$ 104	$ -	$ -	$ 12,360
Operating income (loss)	$ 1,135	$ 5,531	$ (160)	$ -	$ -	$ 6,506
Foreign currency transaction loss	$ -	$ (1,235)	$ -	$ -	$ -	$ (1,235)
Interest expense	$ (44)	$ (288)	$ -	$ -	$ 22	$ (310)
Interest income	$ 2	$ 30	$ -	$ 6	$ (22)	$ 16
Investment loss	$ -	$ -	$ -	$ (435)	$ -	$ (435)
Income tax expense	$ 328	$ 1,571	$ -	$ -	$ -	$ 1,899
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	$ 1,049	$ 2,891	$ (160)	$ (429)	$ -	$ 3,351
Total assets at December 31, 2021	$ 6,607	$ 44,063	$ 2,909	$ 875	$ -	$ 54,454

Note 2 - Segment Information (continued)

Segment information for the year ended December 31, 2020 was as follows (in thousands):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net sales to unaffiliated customers	$ 10,965	$ 96,930	$ 103	$ -	$ -	$ 107,998
Gross profit	$ 4,423	$ 7,131	$ 103	$ -	$ -	$ 11,657
Operating income (loss)	$ 2,523	$ 2,968	$ (67)	$ -	$ -	$ 5,424
Foreign currency transaction loss	$ -	$ (80)	$ -	$ -	$ -	$ (80)
Interest expense	$ (47)	$ (594)	$ -	$ -	$ 12	$ (629)
Interest income	$ -	$ 19	$ -	$ 4	$ (12)	$ 11
Investment gain	$ -	$ -	$ -	$ 324	$ -	$ 324
Income tax expense	$ 696	$ 1,068	$ -	$ -	$ -	$ 1,764
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	$ 2,353	$ 987	$ (67)	$ 328	$ -	$ 3,601
Total assets at December 31, 2020	$ 7,280	$ 33,668	$ 1,240	$ 545	$ (200)	$ 42,533

Note 2 - Segment Information (continued)

Segment information for the year ended December 31, 2019 was as follows (in thousands):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net sales to unaffiliated customers	$ 7,440	$ 105,351	$ 102	$ -	$ -	$ 112,893
Gross profit	$ 2,675	$ 7,719	$ 102	$ -	$ -	$ 10,496
Operating income (loss)	$ 313	$ 2,840	$ (63)	$ -	$ -	$ 3,090
Foreign currency transaction gain	$ -	$ 26	$ -	$ -	$ -	$ 26
Interest expense	$ (46)	$ (521)	$ -	$ -	$ 12	$ (555)
Interest income	$ -	$ 31	$ -	$ 5	$ (12)	$ 24
Investment loss	$ -	$ -	$ -	$ (463)	$ -	$ (463)
Income tax expense (benefit)	$ (138)	$ 988	$ -	$ -	$ -	$ 850
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	$ 497	$ 1,016	$ (63)	$ (458)	$ -	$ 992
Total assets at December 31, 2019	$ 4,153	$ 42,036	$ 1,324	$ 310	$ (195)	$ 47,628

Note 3 - Financing Arrangements

During 2021 and 2020, 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 nonfinancial covenants and is secured by all of the Company's trade accounts receivables and inventories. The availability on the line of credit was $750,000 as of December 31, 2021. Interest on the line of credit facility is based on the Wall Street Journal Prime Rate plus 1.00%. The outstanding borrowings were $0 and $600,000 as of December 31, 2021 and 2020, respectively.

In March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was approved, which established the Paycheck Protection Program (PPP), which is administered by the U.S. Small Business Administration (SBA). On April 15, 2020, the Company, through its wholly owned subsidiary SI Systems, received approval for a $453,562 loan under the PPP. Under the terms of the CARES Act, PPP loan recipients can apply for, and be granted, forgiveness for all or a portion of loans granted under the PPP. The Company applied for PPP loan forgiveness on November 3, 2020. The Company received notification of the forgiveness of the PPP loan and recorded it as other income for the year ended December 31, 2020.

Note 3 - Financing Arrangements (continued)

The Company determined it was entitled to receive the PPP loan and that it qualified for the loan forgiveness. The amount requested was used to pay payroll costs to retain employees; business mortgage interest payments; and business utility payments. The dollar amount included payroll costs of 87% of the forgiveness amount which exceeded the 60% requirement. All required representations and certifications required by the Company were made.

The Company was unable to operate between February 15, 2020 and the end of the alternative payroll covered period of October 11, 2020 at the same level of business activity as before February 15, 2020 due to compliance with requirements established and guidance issued between March 1, 2020 and December 31, 2020 by the Governor of the State of Pennsylvania. The Company's office was shuttered from March 16, 2020 through June 8, 2020 and our employees were unable to visit customers and partners to generate new business. Supply chain delays caused project installation delays and pushed out customer invoicing dates. Some customers postponed major capital investments due to COVID-19 uncertainties.

The SBA has up to six years after it forgave the loan in December 2020 to audit whether the Company qualified for a PPP loan and met the conditions necessary for forgiveness of the loan.

In response to the COVID-19 pandemic, the SBA made small business owners eligible to apply for an Economic Injury Disaster Loan advance of up to $10,000 under its Economic Injury Disaster Loan program (EIDL). SI Systems applied for an EIDL loan and received a $10,000 loan advance on May 5, 2020 (EIDL Advance). As disclosed above, SI Systems also applied for and received a PPP loan. The EIDL Advance was offset against the portion of the PPP loan that qualified for forgiveness. On January 12, 2021, the Company was advised that the recent modifications to the PPP loan forgiveness rules by the SBA specify that EIDL loans will not reduce the amount of any PPP loan forgiveness retroactively for loans already forgiven and going forward. The Company received the remaining $10,000 of loan forgiveness during the second quarter of 2021.

Also in response to the COVID-19 pandemic, the SBA made small business owners eligible to apply for a loan of up to $150,000 under its EIDL program. SI Systems received a $150,000 loan under the EIDL (EIDL Loan) on July 24, 2020. The Company paid the EIDL Loan off on December 14, 2021 in the amount of $157,813 that included interest due of $7,813.

SEDC currently maintains short-term working capital lines of credit at eight and seven local banks as of December 31, 2021 and December 31, 2020, respectively. Below is a detail of these lines as of December 31, 2021 and 2020:

December 31, 2021			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	TBD	$ 6,000,000	$ 1,507,098	$ -	$ -	$ 6,000,000	$ 1,507,098
Bancoomeva	Local	TBD	4,000,000	1,004,732	-	-	4,000,000	1,004,732
Bancolombia	Local	IBR+1.00%	12,000,000	3,014,197	4,509,783	1,132,780	7,490,217	1,881,417
BBVA	Local	TBD	8,000,000	2,009,465	-	-	8,000,000	2,009,465
Scotiabank	Local	TBD	10,000,000	2,511,831	-	-	10,000,000	2,511,831
de Bogota	Local	IBR+0.90%	9,000,000	2,260,648	5,530,713	1,389,222	3,469,287	871,426
AV Villas	Local	IBR+1.40%	3,000,000	753,549	1,592,846	400,096	1,407,154	353,453
de Occidente	Local	IBR+0.97%	9,000,000	2,260,648	1,764,871	443,306	7,235,129	1,817,342
			$ 61,000,000	$ 15,322,168	$ 13,398,213	$ 3,365,404	$ 47,601,787	$ 11,956,764

Note 3 - Financing Arrangements (continued)

December 31, 2020			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	TBD	$ 1,700,000	$ 495,266	$ -	$ -	$ 1,700,000	$ 495,266
Bancoomeva	Local	IBR+3.50%	4,000,000	1,165,331	2,000,000	582,666	2,000,000	582,665
Bancolombia	Local	IBR+3.00%	15,351,000	4,472,251	2,531,290	737,448	12,819,710	3,734,803
BBVA	Local	IBR+2.00%	2,000,000	582,666	1,333,333	388,444	666,667	194,222
Scotiabank	Local	5.00%	6,000,000	1,747,997	5,900,000	1,718,864	100,000	29,133
de Bogota	Local	IBR+2.20%	2,000,000	582,666	1,333,333	388,444	666,667	194,222
de Occidente	Local	IBR+3.20%	8,000,000	2,330,663	7,836,781	2,283,112	163,219	47,551
			$ 39,051,000	$ 11,376,840	$ 20,934,737	$ 6,098,978	$ 18,116,263	$ 5,277,862

SEDC also had an accounts receivables factoring credit agreement with one local bank as of December 31, 2021 and 2020. Below is the detail of the respective agreements.

December 31, 2021		AR Factoring Agreement		Borrowings		Availability	
Bank Name	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
AV Villas	TBD	$ 20,000,000	$ 5,023,661	$ -	$ -	$ 20,000,000	$ 5,023,661
		$ 20,000,000	$ 5,023,661	$ -	$ -	$ 20,000,000	$ 5,023,661

December 31, 2020		AR Factoring Agreement		Borrowings		Availability	
Bank Name	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
de Occidente	TBD	$ 2,000,000	$ 582,666	$ -	$ -	$ 2,000,000	$ 582,666
		$ 2,000,000	$ 582,666	$ -	$ -	$ 2,000,000	$ 582,666

Indicador Bancario de Referencia (“IBR”) and Depósitos a Término Fijo (“DTF”) are market reference rates in the Colombian financial market. These rates are published daily by the Banco de la República. The rates that are TBD have no current borrowing activity. The rates are established at time of borrowing.

SEDC also had revolving credit agreements for factoring accounts payable from Hewlett Packard Inc., Lenovo and Epson with three local banks as of December 31, 2021 and 2020. 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. As of December 31, 2020, SEDC decided to transfer all available amounts under the agreements to short-term working capital lines of credits.

In January 2021, Ohana entered into purchase agreements for two residential properties in Las Vegas, Nevada, one for a purchase price of $900,000 and another for a purchase price of $894,000, consisting of an initial down payment of $150,000 and $144,000, respectively, and a promissory note for each in the amount of $750,000. For one of the properties, a down payment of $150,000 was due and paid by March 1, 2021 and a promissory note for $750,000 was executed. The interest rate on the promissory note is 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2022 and payments continuing the same day of each consecutive quarter, until October 1, 2023. The payment due on January 1, 2022 was paid on December 31, 2021. For the second property, a down payment of $144,000 was due and paid by December 1, 2021 and a promissory note for $750,000 was executed. The interest rate on the promissory note is 0.0% and is to be repaid in eight equal installments of $93,750, with the first payment due on the first day of January 2023 and payments continuing the same day of each consecutive quarter, until October 1, 2024.

Note 3 - Financing Arrangements (continued)

Future maturities on these promissory notes are as follows for the years ended December 31:

2022	**$ 281,250**
2023	**750,000**
2024	**375,000**
	$ 1,406,250

Note 4 - Uncompleted Contracts

Costs and estimated earnings and billings on uncompleted contracts as of December 31, 2021 and 2020 were as follows (in thousands):

	December 31, 2021	**December 31, 2020**
Costs and estimated earnings on uncompleted contracts	**$ 5,262**	$ 4,984
Billings to date	**(7,731)**	(6,428)
	$ (2,469)	$ (1,444)

	December 31, 2021	**December 31, 2020**
Included in accompanying consolidated balance sheets under the following captions		
Contract assets	**$ 3**	$ 403
Contract liabilities	**(2,472)**	(1,847)
	$ (2,469)	$ (1,444)

Note 5 - Intangible Assets

Intangible assets were as follows (in thousands):

	December 31, 2021		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade name	**$ 537**	**$ 259**	**$ 278**
Customer relations	**135**	**66**	**69**
	$ 672	**$ 325**	**$ 347**
	December 31, 2020		
Trade name	$ 537	$ 206	$ 331
Customer relations	135	52	83
	$ 672	$ 258	$ 414

Note 6 - Stock Options and Nonvested 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 of Directors 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 of Directors or a committee of the Board of Directors that may be designated in the future. The Plan has a term of ten 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 years ended December 31, 2021 and 2020, no shares were granted under the Plan, and no stock-based compensation expense was recognized. For the year ended, December 31, 2019, 10,000 shares were granted to an employee. Stock-based compensation expense recognized during the year ended December 31, 2019 for stock-based compensation programs was $10,000 for employee stock grants. All of the stock-based compensation expenses were a component of selling, general, and administrative expenses.

The Equity Incentive Plan is set to expire July 27, 2022. No new incentive plan has been proposed or adopted by the Board to replace the current Equity Incentive Plan.

Note 7 - Employee Benefit Plans

The Company has a defined contribution Retirement Savings Plan (the Savings Plan) for its U.S. employees. Employees age 21 and above are eligible to participate in the Savings Plan. The Company matching contribution for the years ended December 31, 2021, 2020 and 2019 was $13,036, $13,463 and $19,746, respectively. The Savings Plan also contains provisions for profit sharing contributions in the form of cash as determined annually by the Company's Board of Directors. There were no profit-sharing contributions for the years ended December 31, 2021, 2020 and 2019.

Note 8 - Chairman's Compensation and Directors' Fees Paid

For each of 2019, 2020 and 2021, Mr. Gad was paid $150,000 in cash in four equal quarterly installments in advance of each quarter 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 2022, Mr. Gad as chairman and director is expected to be paid the same fees as stated above for 2021. For 2022, the other directors are also expected to be paid the same fees as stated above for 2021.

For 2019, 2020 and 2021, Mr. Gad received compensation for his role as President of SI Systems, LLC, a subsidiary of the Company of $143,000.

For 2022, Mr. Gad is expected to receive $155,500 in compensation for his role as President of SI Systems, LLC.

The directors approved and authorized the payment of a bonus to Mr. Gad by the Company in the amount of $71,500 and $35,750 for fiscal years 2020 and 2019, respectively. There was no bonus paid to Mr. Gad for fiscal year 2021.

Note 9 - Income Taxes

The provision for income tax expense (benefit) as of December 31 2021, 2020 and 2019 consists of the following (in thousands):

	2021	2020	2019
Federal			
Current	**$ 291**	$ 468	$ 115
Deferred	**10**	49	(231)
	$ 301	$ 517	$ (116)
State			
Current	**$ 48**	$ 165	$ 36
Deferred	**2**	14	(58)
	$ 50	$ 179	$ (22)
Foreign			
Current	**$ 1,997**	$ 1,068	$ 1,070
Deferred	**(449)**	-	(82)
	$ 1,548	$ 1,068	$ 988
	$ 1,899	$ 1,764	$ 850

The Company had no federal net operating losses at December 31, 2021. The Company had state net operating losses of approximately $1,663 (in thousands) at December 31, 2021, expiring at various times based on individual state limits.

Note 9 - Income Taxes (continued)

The reconciliation between the U.S. federal statutory rate and the Company's effective income tax rate for the years ended December 31 is as follows (in thousands):

	2021	2020	2019
Computed tax expense at statutory rate of 21%	**$ 1,254**	$ 1,179	$ 440
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal benefit	**32**	172	65
Permanent differences	**(11)**	175	274
Valuation differences	**501**	71	63
Miscellaneous items	**123**	167	8
	$ 1,899	$ 1,764	$ 850

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31 are presented below (in thousands):

	2021	2020	2019
Deferred tax assets			
Net operating loss carryforward	**$ 111**	$ 111	$ 137
Inventory reserve	**53**	58	86
Accrued warranty costs	**20**	20	19
Unrealized loss on investments	**307**	808	879
Operating lease liabilities	**149**	202	175
Accruals for other expenses, not yet deductible for tax purposes	**763**	360	386
Machinery and equipment, principally due to difference in depreciation	**30**	7	(13)
Total gross deferred tax assets	**1,433**	1,566	1,669
Less: valuation allowance	**(307)**	(808)	(879)
Net deferred tax assets	**1,126**	758	790
Deferred tax liabilities			
Operating lease right of use asset	**$ (151)**	$ (208)	$ (178)
Prepaid expenses	**(15)**	(27)	(17)
Total gross deferred tax liabilities	**(166)**	(235)	(195)
Net deferred tax assets	**$ 960**	$ 523	$ 595

Note 9 - Income Taxes (continued)

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. As of December 31, 2021 and 2020, based upon taxable income, a valuation allowance is only deemed appropriate on the unrealized loss on investments.

Note 10 - Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. There were no pending actions as of December 31, 2021.

Note 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 years ended December 31, 2021 and 2020.

Note 12 - Recent Accounting Pronouncement

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*, which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in ASC 740 and also clarifies and amends existing guidance to improve consistent application. This guidance is effective for public entities for fiscal years beginning after December 15, 2020, and for interim periods within those fiscal years. The Company adopted this standard in 2021 with no material impact on the Company’s consolidated financial statements.

Note 13 - Subsequent Events

Events and transactions for items that should potentially be recognized or disclosed in these consolidated financial statements occurring subsequent to the consolidated balance sheets date of December 31, 2021, have been evaluated through March 24, 2022, the date which these consolidated financial statements were available to be issued.