PARAGON TECHNOLOGIES, INC.
Annual Report
For the Fiscal Year Ended December 31, 2018

A Delaware Corporation

101 Larry Holmes Drive, Suite 500
Easton, PA 18042

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SIC Codes: 3530 and 5045

Annual Report
For the Period Ending: December 31, 2018
(the "Reporting Period")

As of December 31, 2018, the number of shares outstanding of our Common Stock was: 1,694,745

As of December 31, 2017, the number of shares outstanding of our Common Stock was: 1,684,745

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: ☒

1) Name 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.

Has the issuer or any of its predecessors ever 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:	20,000,000	as of December 31, 2018
Total shares outstanding:	1,694,745	as of December 31, 2018
Number of shares in the Public Float:	946,212	as of May 14, 2018
Total number of shareholders of record:	193	as of May 14, 2018

<u>Transfer Agent</u>
Broadridge Shareholder Services
Toll-free: (877) 830-4936
Toll: (720) 378-5591
Email: Kayur.Patel@broadridge.com

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

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

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

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: ☐

Number of Shares outstanding as of January 1, 2017	Opening Balance: Common: 1,684,745 Preferred: 0								
Date of Transaction	**Transaction type (e.g. new issuance, cancellation, shares returned to treasury)**	**Number of shares Issued (or cancelled)**	**Class of Securities**	**Value of shares issued ($/per share) at issuance**	**Were the shares issued at a discount to market price at the time of issuance? (Yes/No)**	**Individual/Entity Shares were issued to (entities must have individual with voting / investment control disclosed).**	**Reason for share issuance (e.g. for cash or debt conversion) OR Nature of Services Provided (if applicable)**	**Restricted or Unrestricted as of this filing?**	**Exemption or Registration Type?**
January 26, 2018	New issuance	10,000(1)	Common Stock	$1.14	NO	Deborah Mertz	Compensation	Restricted, control security held by an officer of the Company(2)	Unregistered(3)
Shares Outstanding on December 31, 2018(4)	Ending Balance: Common: 1,694,745 Preferred: 0								

(1) On January 26, 2018, a stock grant of 10,000 shares was made to an employee of the Company.
(2) All shares of common stock issued by the Company contain a restrictive legend since the shares are not registered with the Securities and Exchange Commission. Common stock must be held by non-affiliates for one year for the restrictive legend to be removed. Affiliates remain subject to the restrictions under Rule 144 promulgated under the Securities Act of 1933, as amended (the "Securities Act"), as long as they are affiliates of the Company and for 90 days thereafter.
(3) Issued pursuant to an exemption from the registration requirements of the Securities Act, as provided by Rule 701, Regulation D and/or Section 4(a)(2) of the Securities Act, as applicable.
(4) On January 8, 2019, a stock grant of 10,000 shares was made to an employee of the Company, pursuant to an exemption from registration requirements of the Securities Act.

B. Debt Securities, Including Promissory and Convertible Notes

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

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 Mertz
Title: CFO
Relationship to Issuer: Chief Financial Officer

4) Financial Statements *(Continued)*

The financial statements for the fiscal year ended December 31, 2018 are incorporated by reference and can be found at the end of this Annual Report. The financial statements as of and for the fiscal year ended December 31, 2018 include: (1) consolidated balance sheets, (2) consolidated statements of operations, (3) consolidated statements of comprehensive income (loss), (4) consolidated statements of 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 is a holding company owning subsidiaries that engage in diverse business activities including material handling, distribution, real estate, and investments.

Automation

Our material handling operations are operated through our subsidiary, SI Systems, LLC ("SI Systems"). SI Systems provides productivity enhancing material handling solutions, including complete systems, subsystem technologies, products, software and services for automated material handling and order processing applications. SI Systems' capabilities include horizontal conveyance, goods to man solutions, automated and semi-automated picking for order fulfillment, and a modular suite of high-performance Warehouse Execution Systems (WES) and Warehouse Management software. SI Systems supports both its install base and the broader industry install base with support, upgrade services, aftermarket parts, as well as rejuvenation and retrofit engineering services.

We believe that SI Systems is known in the marketplace to have the most durable and maintenance free Towline solutions as well as the world's fastest automated order picking technologies. The newest additions to our material handling solution portfolio are the Mobile-Matic™ XL picking robot, a completely re-engineered Simon™ Automated Guided Vehicle, a solution set of Automated Storage and Retrieval technologies, and related software enhancements to complement. The new additions were added to support a broader customer demand for flexible automation solutions and address market gaps in our existing offerings.

SI Systems' automated material handling systems are currently used by manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government. Our markets are diverse, and our customers and prospects represent leading manufacturer brands and their supply chain partners in the logistics services space. We sell our products directly and through integration partners.

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

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

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

Distribution

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

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

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

The services provided by our Integrated Service business unit include managed services, printing outsourcing, electronic documents management, electronic invoicing and IoT. The Integrated Service unit has also taken ownership of the extended warranties and maintenance agreements sales.

Real Estate

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

Investments

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

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

B. Describe 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. The officers of all three are: Hesham Gad, President and CEO; and Deborah Mertz, CFO. The business address of all three is 101 Larry Holmes Drive, STE 500, Easton, PA 18042.

ARK Investments, LLC owns 80% of SED International de Colombia, S.A.S. (SEDC). Ronell Rivera is President of SEDC, which is located at Parque Industrial Gran Sabana Bodega 31, Vereda Tibitó – Tocancipá.

C. Describe the issuers' principal products or services and their markets.

For information regarding our principal products or services and their markets, please see Section 5.A. of our Annual Report 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 is 9,648 square feet. The leasing agreement requires fixed monthly payments of $13,500 through April 30, 2020, when the lease expires.

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

SED Colombia leased a 32,000 square foot facility in Chia (Cundinamarca), Colombia. The center, located near Bogotá, the capital city of Colombia, serves as a sales and administrative office and distribution facility for SEDC. The lease expired in October 2018. The monthly payment is the equivalent of approximately $9,721. On January 1st, 2019, SED Colombia entered into a five year lease agreement for a 44,530 square foot facility in Tocancipa (Cundinamarca) to serve as its new sales and administrative office and distribution facility. The new monthly payment is the equivalent of approximately $13,847. SEDC is continuing to rent the Chia facility on a month to month basis until all departments have been transferred to the new building. The estimated date for all departments to vacate is March 31, 2019.

SEDC also leases office #210 at 14707 South Dixie Highway in Palmetto Bay, Florida for a monthly payment of $1,362. The lease expires at the end of March, 2019 and will be renewed for an additional year for a monthly payment of $1,403. In addition, SEDC rents two apartments in Chia for the use of its two members of the management team based out of Miami, Florida for an aggregate monthly payment of the equivalent of approximately $890. These leases expire in mid-July 2019 and end of March 2019, respectively, and will not be renewed. The lease expiring at the end of March 2019 will be replaced with a lease on a house in Chia for a monthly payment of approximately $976 expiring mid-March 2020.

7) Officers, Directors, and Control Persons

Name of Officer/Director and Control Person	Affiliation with Company (e.g. Officer/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, Officer & Owner of >5%	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	520,408	Common stock	30.7%	
Donna Van Allen & Van Allen Investments	Owner of >5%	Winter Springs, Florida	245,000	Common Stock	14.5%	
William Guegel	Owner of >5%	Pearland, TX	125,064	Common Stock	7.4%	
Kevin Ting	Owner of >5%	Mission Viejo, CA	90,352	Common Stock	5.3%	
Deborah Mertz	Officer	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	10,000	Common Stock	0.6%	
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%	

Name, Other Positions or Offices With the Company and Principal Occupation for Past Five Years	Director Since	Age
Hesham M. Gad	2010	41

Hesham M. Gad has been Chief Executive Officer of the Company since June 2014, Chairman of the Company's Board of Directors since March 2012 and a director of the Company since October 2010. From 2013 to 2017 Mr. Gad served as Chairman and CEO of SED International Holdings, a multinational distributor of IT and computing products.

Mr. Gad is also the author of the internationally published book, "The Business of Value Investing." Mr. Gad holds a B.A. in finance and an MBA in finance from the University of Georgia.

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

Jack H. Jacobs	2012	73

Jack H. Jacobs is the Melcher Family Chair 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 and a recipient of 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, Resonant Inc. (Nasdaq: RESN) since 2018, and Ballantyne Strong, Inc. (NYSE American: BTN) since 2018. From 2007 to 2012, Colonel Jacobs served as a member of the Board of Directors of Xedar Corporation, a public company; from June 2006 to 2009, he was a director of Visual Management Systems, a private company; and he was a director of BioNeutral Group, Inc., a public company, until 2009. From October 17, 2013 to October 28, 2013, Colonel Jacobs served on the board of SED International Holdings, Inc. He was previously a director of Premier Exhibitions, Inc. Colonel Jacobs is Co-Chairman of the Medal of Honor Foundation and 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.

Samuel S. Weiser..	2012	59

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

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

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	41	Chief Executive Officer, Paragon Technologies
Deborah R. Mertz	62	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 has held various other senior accounting positions. Ms. Mertz is a CPA and has an MBA from Rider University and a B.S. in Accounting from King's College.

8) Legal/Disciplinary History

A. Please identify whether any of the persons 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.

8) Legal/Disciplinary History *(Continued)*

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.

   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 the 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 proceeding 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 that advise your company on matters relating to operations, business development, and disclosure:

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

9) Third Party Providers *(Continued)*

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 Consultant:

None.

Other Service Providers:

Statutory Auditor: Colombia:

Name:	Jose Luis Salgado C.
Firm:	RSM Colombia
Address 1:	Avenida Calle 26 N 69D – 91 Of.
Address 2:	303 / 306 / 702A Torre Peatonal.
Address 3:	Centro Empresarial Arrecife.
Address 4:	Bogota, 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 26, 2019

/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 26, 2019

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

PARAGON TECHNOLOGIES, INC.
and Subsidiaries

ANNUAL REPORT

2018 YEAR-END CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENTS

I N D E X

Independent Auditor's Report

To the Board of Directors
Paragon Technologies, Inc.

Report on the Financial Statements
We have audited the accompanying consolidated financial statements of Paragon Technologies, Inc. and its subsidiaries which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows for each of the three years in the period ended December 31, 2018 and the related notes to the consolidated financial statements (collectively, the financial statements).

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of SED International de Colombia (SED Colombia), an 80 percent-owned subsidiary, whose statements reflect total assets constituting 85 percent of consolidated total assets at December 31, 2018, and total revenues constituting 90 percent of consolidated total revenues for the year then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion for 2018, insofar as it relates to the amounts included for SED Colombia, is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paragon Technologies, Inc. and its subsidiaries as of December 31, 2018 and 2017, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2018 in accordance with accounting principles generally accepted in the United States of America.

RSM US LLP

Blue Bell, Pennsylvania
March 26, 2019

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

Assets	December 31, 2018	December 31, 2017
Current assets:		
Cash and cash equivalents	$ 1,522	$ 2,040
Trade accounts receivables, net	14,080	12,643
Contract assets	338	90
Inventories:		
Raw materials	110	128
Work-in-process	1	1
Finished goods	13,247	10,916
Total inventories	13,358	11,045
Prepaid expenses and other current assets	3,066	3,881
Total current assets	32,364	29,699
Marketable securities	250	420
Property and Equipment		
Real estate	1,500	750
Machinery and equipment	451	513
Software	434	643
Land	18	-
Leasehold Improvements	18	-
Capital Additions in Process	2	-
Less: accumulated depreciation	748	872
Net property and equipment	1,675	1,034
Other assets - intangible assets, net	549	616
Deferred tax asset	224	125
Total assets	$ 35,062	$ 31,894

See accompanying notes to consolidated financial statements.

(Continued)

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

Liabilities and Stockholders' Equity	December 31, 2018	December 31, 2017
Current liabilities:		
Accounts payable	$ 20,019	$ 14,103
Contract liabilities	1,290	1,119
Accrued salaries, wages, and commissions	310	209
Accrued product warranties	104	89
Income taxes payable	780	769
Accrued other liabilities	1,017	1,745
Bank loan - line of credit	4,977	7,836
Total current liabilities	28,497	25,870
Commitments and contingencies (Notes 10 and 11)		
Stockholders' equity:		
Common stock, $1 par value; authorized 20,000,000 shares; issued and outstanding 1,694,745 and 1,684,745 shares as of December 31, 2018 and 2017, respectively	1,695	1,685
Additional paid-in capital	3,500	3,499
Retained earnings	1,139	104
Accumulated other comprehensive loss	(872)	(304)
Total Paragon Technologies, Inc. and subsidiaries stockholders' equity	5,462	4,984
Noncontrolling interest in subsidiary	1,103	1,040
Total stockholders' equity	6,565	6,024
Total liabilities and stockholders' equity	$ 35,062	$ 31,894

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.
Consolidated Statements of Operations
For the Years Ended December 31, 2018, 2017 and 2016
(In Thousands, Except Share and Per Share Data)

	December 31, 2018	December 31, 2017	December 31, 2016
Net sales	$ 85,098	$ 64,615	$ 8,574
Cost of sales	76,454	57,703	6,281
Gross profit on sales	8,644	6,912	2,293
Operating expenses:			
Selling, general and administrative expenses	6,638	6,970	3,749
Product development costs	13	24	16
Total operating expenses	6,651	6,994	3,765
Operating income (loss)	1,993	(82)	(1,472)
Other income (expense)			
Interest income	24	117	39
Interest expense	(403)	(351)	(12)
Realized gain on investment, marketable securities	161	321	138
Unrealized loss on investment, equity securities	(56)	-	-
Gain on bargain purchase	-	4,226	-
Gain on sale of fixed assets	1	-	-
Total other income (expense), net	(273)	4,313	165
Income (loss) before income taxes and noncontrolling interest	1,720	4,231	(1,307)
Income tax expense (benefit)	655	609	(223)
Net income (loss) before noncontrolling interest	1,065	3,622	(1,084)
Net income attributable to noncontrolling interest	113	882	-
Net income (loss) attributable to Paragon Technologies, Inc. and subsidiaries	$ 952	$ 2,740	$ (1,084)
Basic and diluted income (loss) per share	$ 0.56	$ 1.63	$ (0.64)
Weighted average shares outstanding	1,694,033	1,684,745	1,684,745
Dilutive effect of stock options	-	-	-
Weighted average shares outstanding assuming dilution	1,694,033	1,684,745	1,684,745

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.
Consolidated Statements of Comprehensive Income (Loss)
For the Years Ended December 31, 2018, 2017 and 2016
(In Thousands)

	December 31, 2018	December 31, 2017	December 31, 2016
Net income (loss)	$ 1,065	$ 3,622	$ (1,084)
Other comprehensive income (loss):			
Unrealized income (loss) on debt securities net of tax	(148)	(470)	290
Foreign currency translation	(420)	$ (93)	$ -
Comprehensive income (loss)	$ 497	$ 3,059	$ (794)

See accompanying notes to consolidated financial statements.

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

	Common Stock						
	Shares	Amount	Additional Paid-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
Balance at January 1, 2016	1,684,745	$ 1,685	$ 3,499	$ (1,552)	$ (31)	$ -	$ 3,601
Net loss	-	-	-	(1,084)	-	-	(1,084)
Net change in unrealized gain on marketable securities, net of tax	-	-	-	-	290	-	290
Balance at December 31, 2016	1,684,745	1,685	3,499	(2,636)	259	-	2,807
Net income	-	-	-	2,740	-	882	3,622
Net change in unrealized loss on debt securites, net of tax	-	-	-	-	(470)	-	(470)
Restricted stock	-	-	-	-	-	209	209
Distribution	-	-	-	-	-	(51)	(51)
Foreign currency translation	-	-	-	-	(93)	-	(93)
Balance at December 31, 2017	1,684,745	1,685	3,499	104	(304)	1,040	6,024
Net Income	-	-	-	952	-	113	1,065
Net change in unrealized loss on debt securites, net of tax	-	-	-	-	(65)	-	(65)
Adoption of ASU 2016-01	-	-	-	83	(83)	-	-
Distribution	-	-	-	-	-	(50)	(50)
Foreign currency translation	-	-	-	-	(420)	-	(420)
Stock grants to employees	10,000	10	1	-	-	-	11
Balance at December 31, 2018	1,694,745	$ 1,695	$ 3,500	$ 1,139	$ (872)	$ 1,103	$ 6,565

See accompanying notes to consolidated financial statements

PARAGON TECHNOLOGIES, INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2018, 2017 and 2016
(In Thousands)

	December 31, 2018	December 31, 2017	December 31, 2016
Cash flows from operating activities:			
Net income (loss)	$ 1,065	$ 3,622	$ (1,084)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation of property and equipment	207	120	125
Amortization of intangible assets	67	56	51
Write off of the Vware Software:			
Included in property and equipment	-	-	283
Included in intangible assets	-	-	723
Loss on disposition of property and equipment	-	-	4
Realized gains on investments	(161)	(321)	(138)
Unrealized loss on investments	56	-	-
Gain on sale of property and equipment	(1)	-	-
Stock based compensation	11	209	-
Gain on bargain purchase	-	(4,226)	-
Deferred taxes	(130)	307	(194)
Change in operating assets and liabilities:			
Trade accounts receivables	(1,437)	(3,719)	819
Contract assets	(248)	180	39
Inventories	(2,313)	(982)	8
Prepaid expenses and other current assets	814	386	(59)
Accounts payable	5,917	2,251	(180)
Contract liabilities	171	235	102
Accrued salaries, wages and commissions	101	105	(183)
Income tax payable	30	17	(169)
Accrued product warranties	15	22	(75)
Accrued other liabilities	(747)	368	(94)
Net cash provided by (used in) operating activities	3,417	(1,370)	(22)
Cash flows from investing activities:			
Acquisition of SEDC, less cash acquired	-	(914)	-
Purchases of property and equipment	(868)	(803)	(11)
Sale of property and equipment	2	-	-
Purchases of investments	(236)	(496)	(1,414)
Proceeds from sale of investments	476	1,266	1,064
Net cash used in investing activities	(626)	(947)	(361)
Cash flows from financing activities:			
Borrowings (repayments) of bank loan - line of credit, net	(2,859)	2,763	275
Noncontrolling interest distribution	(50)	(51)	-
Net cash provided by (used in) financing activities	(2,909)	2,712	275
Effect of exchange rates on cash	(400)	(88)	-
Increase (decrease) in cash and cash equivalents	(518)	307	(108)
Cash and cash equivalents, beginning of period	2,040	1,733	1,841
Cash and cash equivalents, end of period	$ 1,522	$ 2,040	$ 1,733
Supplemental disclosures of cash flow information:			
Cash paid during the period for:			
Interest expense	$ 397	$ 319	$ 10
Income taxes	$ 86	$ (61)	$ 120
Supplemental disclosures of noncash investing activities:			
Mark to market on available for sale securities, gross	$ (90)	$ (783)	$ 484
Supplemental disclosures of noncash operating, investing and financing activities:			
Acquisition of business (Note 2)			

See accompanying notes to consolidated financial statements.

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

Description of Business and Concentrations of Credit Risk

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

Automation

Our material handling operations are operated through our subsidiary, SI Systems, LLC ("SI Systems" or "SI"). SI Systems provides productivity enhancing material handling solutions, including complete systems, subsystem technologies, products, software and services for automated material handling and order processing applications. SI Systems' capabilities include horizontal conveyance, goods to man solutions, automated and semi-automated picking for order fulfillment, and a modular suite of high-performance Warehouse Execution Systems (WES) and Warehouse Management software. SI Systems supports both its install base and the broader industry install base with support, upgrade services, aftermarket parts, as well as renew and retrofit engineering services.

The Company believes that SI Systems is known in the marketplace to have the most durable and maintenance free Towline solutions as well as the world's fastest automated order picking technologies. The newest additions to our material handling solution portfolio are the Mobile Matic XL picking robot, a completely re-engineered Simon Automated Guided Vehicle, a solution set of Automated Storage and Retrieval technologies, and related software enhancements to complement. The new additions were added to support a broader customer demand for flexible automation solutions and address market gaps in our existing offerings.

SI Systems' automated material handling systems are currently used by manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government. Our markets are diverse, and our customers and prospects represent leading manufacturer brands and their supply chain partners in the logistics services space. The Company sells our products directly and through integration partners.

Distribution

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

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

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

The services provided by our Integrated Service business unit include managed services, printing outsourcing, electronic documents management, electronic invoicing and IoT. The Integrated Service unit has also taken ownership of the extended warranties and maintenance agreements sales.

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

<u>Description of Business and Concentrations of Credit Risk</u> *(Continued)*

<u>Real Estate</u>

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

<u>Investments</u>

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

In the year ended December 31, 2018, the Company had one customer that accounted for over 17.7% of sales. In the year ended December 31, 2017, the Company had no customers that accounted for over 10% of sales. In the year ended December 31, 2016, two customers individually accounted for sales of 26.1% and 10.7%.

As of December 31, 2018, one customer individually owed the Company 13.1% of trade accounts receivables and was included in the sales concentration noted above. As of December 31, 2017, one customer individually owed the Company 12.9% of trade accounts receivables.

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

<u>Principles of Consolidation</u>

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.

<u>Use of Estimates</u>

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

<u>Cash and Cash Equivalents</u>

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.

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

Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at outstanding balances, less an allowance for doubtful accounts. For SI Systems, the allowance for doubtful accounts is determined by a specific identification of individual accounts. The Company writes off receivables upon determination that no further collections are probable. For SEDC, an allowance for doubtful accounts has been established based on collection experience and an assessment of the collectability of specific accounts. The overall determination of the allowance also considers credit insurance coverage and deductibles. SEDC maintains credit insurance, which protects the Company from credit losses exceeding certain deductibles (subject to certain terms and conditions). The allowance for doubtful accounts as of December 31, 2018 and 2017 was $93,645 and $22,744, respectively.

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 - 90 days) or for credits related to price protection. However, for certain other vendors and inventories, the Company is not protected from the risk of inventory loss. Therefore, in determining the net realizable value of inventories, the Company identifies slow moving or obsolete inventories that (1) are not protected by vendor agreements from risk of loss, and (2) are not eligible for return under various vendor return programs. Based upon these factors, the Company estimates the net realizable value of inventories and records any necessary adjustments as a charge to cost of sales. If inventory return privileges were discontinued in the future, or if vendors were unable to honor the provisions of certain contracts which protect SEDC from inventory losses, including price protections, the risk of loss associated with obsolete, slow moving or impaired inventories would increase.

Marketable Securities

The Company adopted ASU 2016-01 on January 1, 2018. The standard primarily affects the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. The Company reclassified $83,000 between other comprehensive income and retained earnings due to the adoption of ASU 2016-01.

The Company's debt securities portfolio is designated as available-for-sale. Securities classified as available-for-sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Securities available-for-sale are carried at fair value. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Company's assets and liabilities, liquidity needs, capital considerations and other similar factors. Unrealized gains and losses for debt securities are reported as increases or decreases in other comprehensive income (loss). 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.

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

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

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

Marketable Securities *(Continued)*

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

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

	Equity Securities			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018	$ 137	$ 1	$ 58	$ 80
December 31, 2017	239	152	10	381

	Debt Securities			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018	$ 555	$2	$387	$170
December 31, 2017	555	0	516	39

	Total Marketable Securities			
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018	$ 692	$ 3	$ 445	$ 250
December 31, 2017	794	152	526	420

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

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

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

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

Marketable Securities *(Continued)*

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, are 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)
As of December 31, 2018	$ 250	$ 250	$ -	$ -
As of December 31, 2017	420	420	-	-

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 3 - 7 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.

Intangible Assets

As a result of the acquisition of SEDC in 2017, intangible assets of a trade name and customer relationships were recognized at fair value. The details of the intangible assets and the related amortization are shown in Note 6 to the consolidated financial statements.

Impairment of 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 noted in 2018 or 2017.

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

<u>Foreign Currency Translation</u>

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

<u>Revenue and Cost Recognition</u>

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

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

In thousands

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

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

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

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

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

<u>Revenue and Cost Recognition</u> (*Continued)*

For systems contracts accounted for over time using estimated costs as a measure of performance completed, the Company relies on the estimates around the total estimated costs to complete the contract ("Estimated Costs at Completion"). Total Estimated Costs at Completion include direct labor, material and subcontracting costs. Due to the nature of the efforts required to be performed to meet the underlying performance obligation, determining Estimated Costs at Completion may be complex and subject to many variables. We have a standard and disciplined quarterly process in which management reviews the progress and performance of open contracts in order to determine the best estimate of Estimated Costs at Completion. As part of this process, management reviews information including, but not limited to, any outstanding key contract matters, progress towards completion, the project schedule, identified risks and opportunities, and the related changes in estimates of costs. The risks and opportunities include management's judgment about the ability and cost to achieve the project schedule, technical requirements, and other contract requirements. Management must make assumptions and estimates regarding labor productivity and availability, the complexity of work to be performed, the availability and cost of material, and performance by subcontractors, among other variables. Based on this analysis, any quarterly adjustment to net sales, cost of sales, and the related impact on operation income are recorded as necessary in the period they become known. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

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

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

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's revenue for individual support services, the contract is the customer purchase order that outlines the transaction price. Support contracts are prepaid and typically cover a one-year period. Revenue is recognized ratably over the course of the contract term. SI is entitled to payment regardless of what level of support is required and regardless of the outcome. The performance obligation is related to the promise to have a resource available. SI analyzed the software support percentage of cost to revenue monthly, quarterly and annually for the three years ended December 31, 2018, 2017 and 2016. SI found consistency year over year in the annual percentage of cost to revenue. There were fluctuations month to month and quarter to quarter, but that can happen depending on the customer's needs and depth of support. Therefore, due to the unpredictable fluctuations, SI determined support service (in the form of availability to the customer) is provided over the life of the contract and revenue should be recognized accordingly.

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

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

Revenue and Cost Recognition (*Continued)*

SEDC recognizes revenue using the following steps:

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

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 products sold. Shipping is not considered a separate performance obligation but is part of the product sales.

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 passthrough amounts and are not recorded in the statement of operations.

The Company disaggregates our 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, 2018, 2017 and 2016.

Disaggregation of Total Net Sales (in thousands)	For the Year Ended December 31, 2018			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 7,899	-	$ 91	$ 7,990
Latin America	22	76,880	-	76,902
Europe & Asia	206	-	-	206
Total Net Sales	$ 8,127	$ 76,880	$ 91	$ 85,098
Major Goods/Service Lines				
Material handling systems	5,390	-	-	5,390
Software support	731	-	-	731
Parts & equipment	2,006	-	-	2,006
Transactional	-	63,053	-	63,053
Value	-	12,455	-	12,455
Services	-	1,372	-	1,372
Residential real estate rental income	-	-	91	91
Total Net Sales	$ 8,127	$ 76,880	$ 91	$ 85,098
Timing of Revenue Recognition				
Goods transferred at a point in time	2,006	76,819	-	78,825
Goods & services transferred over time	6,121	62	91	6,274
Total Net Sales	$ 8,127	$ 76,880	$ 91	$ 85,098

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

Revenue and Cost Recognition *(Continued)*

Disaggregation of Total Net Sales (in thousands)	For the Year Ended December 31, 2017			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 8,620	-	-	$ 8,620
Latin America	1	55,691	-	55,692
Europe & Asia	303	-	-	303
Total Net Sales	$ 8,924	$ 55,691	$ -	$ 64,615
Major Goods/Service Lines				
Material handling systems	6,637	-	-	6,637
Software support	704	-	-	704
Parts & equipment	1,583	-	-	1,583
Transactional	-	43,631	-	43,631
Value	-	11,836	-	11,836
Services	-	224	-	224
Total Net Sales	$ 8,924	$ 55,691	$ -	$ 64,615
Timing of Revenue Recognition				
Goods transferred at a point in time	1,583	55,686	-	57,269
Goods & services transferred over time	7,341	5	-	7,346
Total Net Sales	$ 8,924	$ 55,691	$ -	$ 64,615

Disaggregation of Total Net Sales (in thousands)	For the Year Ended December 31, 2016			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 8,450	-	-	$ 8,450
Latin America	12	-	-	12
Europe & Asia	112	-	-	112
Total Net Sales	$ 8,574	$ -	$ -	$ 8,574
Major Goods/Service Lines				
Material handling systems	4,847	-	-	4,847
Software support	698	-	-	698
Parts & equipment	3,029	-	-	3,029
Total Net Sales	$ 8,574	$ -	$ -	$ 8,574
Timing of Revenue Recognition				
Goods transferred at a point in time	3,029	-	-	3,029
Goods & services transferred over time	5,545	-	-	5,545
Total Net Sales	$ 8,574	$ -	$ -	$ 8,574

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

<u>Revenue and Cost Recognition</u> (*Continued)*

Contract Balances *(in thousands)*

	December 31, 2018	December 31, 2017
Receivables	$ 14,080	$ 12,643
Contract assets	338	90
Contract liabilities	1,290	1,119

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

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

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

Revenue recognized during the year ended December 31, 2018 which was previously included in contract liabilities as of December 31, 2017, is $1,093 *(in thousands).*

Revenue recognized during the year ended December 31, 2017 which was previously included in contract liabilities as of December 31, 2016 is $692 *(in thousands*).

There have been no impairment losses recognized on customer receivables or contract assets during the year ended December 31, 2018. SI Systems' contract costs include all direct material, subcontract and labor costs, and those indirect costs related to contract performance, including but not limited to costs such as indirect labor, supplies, tools, repairs, and depreciation. Selling, general and administrative costs are charged to expense as incurred.

<u>Product Development Costs</u>

The Company expenses product development costs as incurred.

<u>Accrued Product Warranty</u>

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.

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

Accrued Product Warranty *(Continued)*

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
2018……………………..	$ 89	$ 75	$ 60	$ 104
2017	67	23	(1)	89

Income Taxes

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

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

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

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

The one-time transition tax was based on the Company's total post-1986 earnings and profits ("E&P") that were previously deferred from U.S. income taxes. The Company recorded a liability of $46 for the one-time transition tax for its foreign subsidiaries at December 31, 2017.

Under the Act, a policy election with respect to the Company's treatment of potential global intangible low-taxes income ("GILTI") was required to be selected for fiscal year 2018. The Company elected to account for taxes on GILTI as incurred. There was no impact to the 2018 financial statements.

SI is subject to U.S. federal income tax as well as income tax of multiple state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, and local income tax examinations by tax authorities for years before 2015.

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

Income Taxes *(Continued)*

SEDC is no longer subject to income tax examinations for tax years ended before December 31, 2013. However, management and its tax advisors estimate that no significant differences may result from such contingent examinations that justify any additional accrual to cover the possibility of any expenses deemed as not allowed by the local tax authority.

Stock-Based Compensation

The Company has a stock-based compensation plan in place and records the associated stock-based compensation expense over the requisite service period. Restricted stock awards that are service-based are recorded as equity and amortized into compensation expense on a straight-line basis over the vesting period. These stock-based compensation plans and related compensation expense are discussed more fully in Note 7 to the consolidated financial statements.

Earnings Per Share

Basic and diluted earnings per share for the years ended December 31, 2018, 2017 and 2016 are based on the weighted average number of shares outstanding.

(2) Acquisition Information

SED International de Colombia S.A.S.

On October 17, 2016, Ark Investments, LLC was formed as a wholly owned subsidiary of Paragon Technologies, Inc. On March 1, 2017, Ark Investments, LLC acquired SED International de Colombia, S.A.S. (SEDC), a Colombian based company, for a purchase price of $1,395,000. SEDC distributes computer and technology systems in Colombia and Latin America. The Company purchased all the outstanding capital stock with cash. Operations of SEDC are included from the acquisition date through December 31, 2018 in the consolidated statements of income.

SEDC was an attractive acquisition target to Paragon because of its business model and consistent earnings stream. Prior to the acquisition date, SEDC's parent company, SED International Holdings, Inc., had filed for protection under the U.S. bankruptcy regulations. The U.S. Bankruptcy Court approved bidding procedures related to the sale of SEDC in December of 2016 and then approved the purchase of SEDC by Ark Investments, LLC in February, 2017. The SEDC acquisition resulted in a bargain purchase and a gain was recorded in other income of $4,226,089 for the year ended December 31, 2017.

Intangible assets of $672,229 were recognized at fair value and are composed of trade name of $536,690 and customer relationships of $135,539.

(2) Acquisition Information *(Continued)*

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

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

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

All acquisition related costs, including legal, professional, and other expenses, were expensed by the Company in the period incurred and not included in the purchase price. Acquisition costs were approximately $48,000 and are included in selling, general and administrative expenses on the consolidated statement of operations for the year ended December 31, 2017.

(3) Segment Information

Segment information for the year ended December 31, 2018 is as follows (*in thousands*):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net Sales to unaffiliated customers	$ 8,127	$ 76,880	$ 91	$ -	$ -	$ 85,098
Gross Profit	2,735	5,819	90	-	-	8,644
Operating income (loss)	473	1,583	(63)	-	-	1,993
Foreign Currency transaction gain (loss)	-	628	-	-	-	628
Interest expense, net	(66)	(361)	-	-	24	(403)
Interest income	-	37	-	11	(24)	24
Investment income	-	-	-	104	-	104
Income tax expense	48	607	-	-	-	655
Net income (loss) attributable to Paragon Technologies, Inc. and subsidiaries	451	450	(63)	114	-	952
Total assets at December 31, 2018	$ 5,130	$ 35,562	$ 1,462	$ 250	$ (7,342)	$ 35,062

(3) Segment Information *(Continued)*

Segment information for the year ended December 31, 2017 is as follows (*in thousands*):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net Sales to unaffiliated customers	$ 8,924	$ 55,691	$ -	$ -	$ -	64,615
Gross Profit	2,860	4,052	-	-	-	6,912
Operating income (loss)	(834)	759	(7)	-	-	(82)
Foreign Currency transaction gain (loss)	-	(204)	-	-	-	(204)
Interest expense, net	(53)	(298)	-	-	-	(351)
Interest income	-	13	-	104	-	117
Investment income	-	-	-	321	-	321
Gain on Bargin Purchase	-	4,226	-	-	-	4,226
Income tax expense	409	200	-	-	-	609
Net income (loss) attributable to Paragon Technologies, Inc. and subsidiaries	(1,205)	3,527	(7)	425	-	2,740
Total assets at December 31, 2017	$ 4,567	$ 32,261	$ 763	$ 420	$ (6,117)	$ 31,894

Segment information for the year ended December 31, 2016 is as follows (*in thousands*):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net Sales to unaffiliated customers	$ 8,574	$ -	$ -	$ -	$ -	$ 8,574
Gross Profit	2,293	-	-	-	-	2,293
Operating income (loss)	(1,472)	-	-	-	-	(1,472)
Foreign Currency transaction gain (loss)	-	-	-	-	-	-
Interest expense, net	(12)	-	-	-	-	(12)
Interest income	-	-	-	39	-	39
Investment income	-	-	-	138	-	138
Income tax (benefits)	(223)	-	-	-	-	(223)
Net income (loss) attributable to Paragon Technologies, Inc. and subsidiaries	(1,260)	-	-	176	-	(1,084)
Total assets at December 31, 2016	$ 3,096	$ -	$ -	$ 1,652	$ -	$ 4,748

(3) Segment Information *(Continued)*

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

(4) Line of Credit

During 2018 and 2017, the Company had a $750,000 line of credit facility with its principal bank to be used primarily for working capital purposes. The line of credit facility contains various non-financial covenants and is secured by all of the Company's trade accounts receivables and inventories. The availability on the line of credit was $225,000 as of December 31, 2018. Interest on the line of credit facility is based on the "Wall Street Journal Prime Rate" plus 1.00%. The outstanding borrowings were $525,000 and $350,000 as of December 31, 2018 and 2017, respectively.

During 2018 and 2017, the Company had a $945,000 line of credit facility with its marketable securities broker to be used primarily for general business purposes. The line of credit facility is secured by the available securities in the account. The availability on the line of credit was approximately $26 as of December 31, 2018. Interest on the line of credit facility is based on the one (1) month Libor rate plus 225 bps. The outstanding borrowings were $26 and $708,000 as of December 31, 2018 and 2017, respectively.

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

SEDC currently maintains short term working capital lines of credit at four local banks. Below is a detail of these lines as of December 31, 2018 and 2017.

December 31, 2018			Line of credit		Borrowings		Availability	
Bank Name	Currency	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Davivienda	Local	IBR+4.116	1,505,000	463,113	559,837	172,271	945,163	290,842
Bancoomeva	Local	DTF+5	2,000,000	615,432	2,000,000	615,432	0	0
Bancolombia	USD	DTF+2.6	2,332,502	717,748	1,177,167	362,233	1,155,335	355,515
de Occidente	Local	7%	4,543,698	1,398,169	0	0	4,543,698	1,398,169
			10,381,200	3,194,462	3,737,003	1,149,936	6,644,197	2,044,526

December 31, 2017			Line of credit		Borrowings		Availability	
Bank Name	Currency	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Davivienda	Local	IBR+4.3	2,200,000	740,000	2,200,000	740,000	0	0
Bancoomeva	Local	DTF+5	2,000,000	670,000	2,000,000	670,000	0	0
Bancolombia	USD	DTF+2.7	5,222,000	1,750,000	4,931,898	1,650,000	290,102	100,000
de Occidente	Local	IBR+5	1,491,000	500,000	840,000	280,000	651,000	220,000
			10,913,000	3,660,000	9,971,898	3,340,000	941,102	320,000

(4) Line of Credit *(Continued)*

SEDC also has an accounts receivable factoring credit arrangement with two local banks as of December 31, 2018 and one local bank as of December 31, 2017. Below is the detail of the arrangement.

December 31, 2018		AR factoring arrangement		Borrowings		Availability	
Bank Name	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
de Occidente	TBD	4,000,000	1,230,864	0	0	4,000,000	1,230,864
AV Villas	DTF+2.5	4,500,000	1,384,722	0	0	4,500,000	1,384,722
		8,500,000	2,615,586	0	0	8,500,000	2,615,586

December 31, 2017		AR factoring arrangement		Borrowings		Availability	
Bank Name	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
de Occidente	IBR+3.8	2,000,000	670,000	2,000,000	670,000	0	0
		2,000,000	670,000	2,000,000	670,000	0	0

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

SEDC also has revolving credit agreements for factoring accounts payable from HP Inc., Lenovo and Epson with three local banks as of December 31, 2018 and 2017. 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.

December 31, 2018	AP factoring agreement		Borrowings		Availability	
Bank Name	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Bancolombia	8,500,000	2,615,586	6,867,530	2,113,249	1,632,470	502,337
Bancolombia Panama	1,624,875	500,000	1,623,913	499,704	962	296
De Occidente	2,156,302	663,528	2,156,302	663,528	0	0
	12,281,177	3,779,114	10,647,745	3,276,481	1,633,432	502,633

December 31, 2017	AP factoring agreement		Borrowings		Availability	
Bank Name	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Bancolombia	5,492,000	1,840,000	3,049,058	1,022,000	2,442,942	118,000
BBVA	1,500,000	503,000	829,691	278,000	670,309	225,000
De Occidente	4,509,000	1,511,000	4,379,655	1,468,000	129,345	43,000
	11,501,000	3,854,000	8,258,404	2,768,000	3,242,596	1,086,000

(5) Uncompleted Contracts

Costs and estimated earnings and billings on uncompleted contracts are as follows *(in thousands):*

	December 31, 2018	December 31, 2017
Costs and estimated earnings on uncompleted contracts	$ 4,842	$ 3,061
Less: billings to date	(5,644)	(4,090)
	$ (902)	$ (1,029)

Included in accompanying balance sheets under the following captions:

Contract assets	$ 338	$ 90
Contract liabilities	(1,290)	(1,119)
	$ (902)	$ (1,029)

(6) Intangible Assets

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

December 31, 2018	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Trade name	$ 537	$ 98	$ 439
Customer relations	135	25	110
	$ 672	$ 123	$ 549

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

During the fourth quarter of 2016, due to nominal future expected revenue derived from the VWare software, intangible assets and fixed assets were written off in the amounts of $723,000 and $283,000, respectively. The total write off amounted to $1,006,000 which is reflected in selling, general and administrative expenses in the statement of operations for the year ended December 31, 2016.

(7) Stock Options and Non-Vested Stock

2012 Equity Incentive Plan

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

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

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

Restricted Stock – Non-controlling Interest

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

Chairman's Compensation and Directors' Fees Paid

For 2016, 2017 and 2018, Mr. Gad was paid $150,000 in cash for his roles as chairman of the board and director. The other directors were paid $36,000 in cash in four equal quarterly installments in advance of each quarter.

For 2019, Mr. Gad as chairman and director is expected be paid the same fees as stated above for 2018. For 2019, the other directors are also expected to be paid the same fees as stated above for 2018.

As of December 2017, Mr. Gad began serving as CEO of SI Systems, LLC, a subsidiary of the company. In that role, Mr. Gad received compensation of $4,000 every two weeks and for the year ended December 31, 2018, and his total compensation as CEO of SI Systems totaled $104,000.

For 2019, Mr. Gad will receive compensation of $5,500 every two weeks for his role as CEO of SI Systems, LLC.

(8) Employee Benefit Plans

The Company has a defined contribution Retirement Savings Plan for its U.S. employees. Employees age 21 and above are eligible to participate in the Plan. The Company matching contribution for the years ended December 31, 2018, 2017 and 2016 was $21,129, $42,785 and $49,541 respectively. The Plan also contains provisions for profit sharing contributions in the form of cash as determined annually by the Company's Board of Directors. There was no profit sharing contributions for the years ended December 31, 2018, 2017 and 2016. Total expense for the Retirement Savings Plan, including Plan expenses, was $21,129, $43,410 and $50,041 for the years ended December 31, 2018, 2017 and 2016, respectively.

(9) Income Taxes

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

		For the Year Ended December 31, 2018	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Federal:	current	$ 64	$ 169	$ (26)
	deferred	(24)	181	(131)
		40	350	(157)
State:	current	11	14	(1)
	deferred	(3)	45	(65)
		8	59	(66)
Foreign:	current	762	206	-
	deferred	(155)	(6)	-
		607	200	-
		$ 655	$ 609	$ (223)

The reconciliation between the U.S. federal statutory rate and the Company's effective income tax rate is *(in thousands):*

	Year Ended December 31, 2018	Year Ended December 31, 2017	Year Ended December 31, 2016
Computed tax expense (benefit) at statutory rate of 21% for 2018 and 34% for 2017 and 2016	$ 361	$ 1,439	$ (444)
Increase (reduction) in taxes resulting from:			
State income taxes, net of federal benefit	22	1	(61)
Permanent differences…………….	293	(1,176)	2
Valuation allowance......................	168	(337)	304
Change in foreign and state rates..	-	394	-
Change in rates for tax reform …...	-	283	-
Foreign tax credits………………….	(320)	-	-
Miscellaneous items......................	131	5	(24)
	$ 655	$ 609	$ (223)

(9) Income Taxes *(Continued)*

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2018 and 2017 are presented below *(in thousands):*

	Year Ended December 31, 2018	Year Ended December 31, 2017
Deferred tax assets:		
Net operating loss carryforward	$ 142	$ 148
Inventory reserve	80	93
Accrued warranty costs	25	22
Unrealized loss on equity method investment	589	648
Unrealized gain on investments	111	226
Accruals for other expenses, not yet deductible for tax purposes	279	156
Total gross deferred tax assets	1,226	1,293
Less: valuation allowance	(942)	(1,110)
Net deferred tax assets	284	183
Deferred tax liabilities:		
Machinery and equipment, principally due to differences in depreciation	(24)	(30)
Prepaid expenses	(36)	(28)
Total gross deferred tax liabilities	(60)	(58)
Net deferred tax assets	$ 224	$ 125

The Company had no federal net operating losses at December 31, 2018. The Company had state net operating losses of approximately $2,038 (in thousands) at December 31, 2018, expiring at various times based on individual state limits.

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

(10) Contingencies

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

(11) Commitments

SI Systems leases a facility located at 101 Larry Holmes Drive in Easton, Pennsylvania. The area covered by the lease is 9,648 square feet. The leasing agreement requires fixed monthly payments of $13,000 through April 30, 2017, and $13,500 for the final thirty-six months through April 30, 2020 when the lease expires. Total rental expense for the years ended December 31, 2018, 2017 and 2016 approximated $211,900, $210,400 and 205,900, respectively.

SED Colombia leases a 32,000 square foot facility in Chia (Cundinamarca), Colombia. The center, located near Bogotá, the capital city of Colombia, serves as a sales and administrative office and distribution facility for SEDC. The lease expired in October 2018. The monthly payment is the equivalent of approximately $9,721. On January 1, 2019, SED Colombia entered into a five year lease agreement for a 44,530 square foot facility in Tocancipa (Cundinamarca) to serve as its new sales and administrative office and distribution facility. The new monthly payment is the equivalent of approximately $13,847. SEDC is continuing to rent the Chia facility on a month to month basis until all departments have been transferred to the new building. The estimated date for all departments to vacate is March 31, 2019.

SEDC also leases office #210 at 14707 South Dixie Highway in Palmetto Bay, Florida for a monthly payment of $1,362. The lease expires at the end of March, 2019. In addition, SEDC rents two apartments in Chia for use by its two members of the management team based out of Miami, Florida for an aggregate monthly payment of the equivalent of approximately $890. These leases expire in July 2019 and March 2019, respectively and will not be renewed. The lease expiring at the end of March 2019 will be replaced with a lease on a house in Chia for a monthly payment of $976 expiring mid-March 2020. Total rental expense for SEDC for the years ended December 31, 2018 and 2017 approximated $183,000 and $144,600, respectively.

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

	Operating Leases		
	SI Systems	SEDC	Total
2019	$162	$174	$ 336
2020	54	192	246
2021	-	192	192
2022	-	192	192
2023	-	192	192
Total	$ 216	$ 942	$ 1,158

(12) 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, 2018 and 2017.

(13) Recently Issued or Adopted Accounting Pronouncements

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

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The lease liability represents the present value of minimum lease payments as of the adoption date. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. ASU No. 2016-02 is effective for annual periods beginning after December 15, 2018, and annual and interim periods thereafter, with early adoption permitted. A modified retrospective transition approach is an option for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. In July 2018, the FASB issued ASU No. 2018-11, Leases (Topic 842). ASU 2018-11 adds an optional transition method allowing entities to apply the new lease accounting rules through a cumulative-effect adjustment to the opening balance of retained earnings in the initial year of adoption.

The Company has established a process to identify a complete population of its leases, including the review of various contracts to identify whether such arrangements convey the right to control the use of an identified asset. The Company has additionally implemented new processes and controls to assist with the adoption of this standard. The Company will adopt this standard effective January 1, 2019 utilizing certain transition practical expedients added by the FASB which eliminate the requirement that entities apply the new lease standard to the comparative periods presented in the year of adoption. The Company will elect the package of practical expedients permitted under the new standard which, among other things, allows the Company to not reassess the lease classification, the lease identification and the initial direct costs for any existing leases. Further, as permitted by the standard, the Company will make an accounting policy election not to record ROU assets or lease liabilities for leases with an initial term of 12 months or less. Instead, consistent with legacy accounting guidance, the Company will recognize payments for such leases in the statement of operations on a straight-line basis over the lease term. Upon adoption on January 1, 2019, the Company estimates this standard will result in the recognition of additional assets and liabilities on its balance sheet of $1.3 million each. The Company does not believe that the new standard will have a material impact on its results of operations or cash flows.

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

(14) Subsequent Events

Events and transactions for items that should potentially be recognized or disclosed in these financial statements occurring subsequent to the balance sheet date of December 31, 2018, have been evaluated through March 26, 2019, the date which these financial statements were available to be issued.