A Delaware Corporation

101 Larry Holmes Drive, Suite 500
Easton, PA 18042

Telephone: 610-252-3205
Fax: 610-252-3102
www.PGNTGROUP.com
info@pgntgroup.com
SIC Codes: 3530 and 5045

Quarterly Report
For the Period Ending: September 30, 2019
(the "Reporting Period")

As of September 30, 2019, the number of shares outstanding of our Common Stock was: 1,704,745

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

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:	4,000,000	as of September 30, 2019
Total shares outstanding:	1,704,745	as of September 30, 2019
Number of shares in the Public Float:	907,857	as of March 25, 2019
Total number of shareholders of record:	184	as of March 25, 2019

<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)
January 8, 2019	New issuance	10,000(1)	Common Stock	$1.00	NO	Deborah Mertz	Compensation	Restricted, control security held by an officer of the Company(2)	Unregistered(3)
Shares Outstanding on September 30, 2019	Ending Balance: Common: 1,704,745 Preferred: 0								

(1) On each of January 26, 2018, and January 8, 2019, respectively, 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.

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 three and nine months ended September 30, 2019 are incorporated by reference and can be found at the end of this Quarterly Report. The financial statements as of and for the three months and nine months ended September 30, 2019 include: (1) consolidated balance sheets, (2) consolidated statements of operations, (3) consolidated statements of comprehensive income, (4) consolidated statements of stockholders' equity, (5) consolidated statements of cash flows, and (6) notes to consolidated financial statements.

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, and 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. SI Systems believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes revenue using a cost-to-cost method based on the continuous transfer of control to the customer over time for its systems contracts, fluctuations in SI Systems' sales and earnings occur with increases or decreases in major installations.

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

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

Distribution

Our distribution operations are carried out through our subsidiary SED International de Colombia, S.A.S. ("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 Consumer Electronics, and Integrated Services. The Value business unit focuses on enterprise sales and business projects, typically selling more specialized products that usually carry higher margins. The top products distributed by our Value unit include servers, workstations, storage, networking, high-end printers, high-end audio visual and power protection systems.

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

The services provided by our Integrated Services business unit include managed services, printing outsourcing, electronic documents management, electronic invoicing and IoT. The Integrated Services 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. 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 currently covered by the lease is 9,648 square feet. The leasing agreement requires fixed monthly payments of $14,400 through April 30, 2020. An addendum to the lease was executed on October 10, 2019 and the square footage will be reduced to 5,628 square feet. The addendum period is six years from May 1, 2020 to April 30, 2026. It requires fixed monthly payments of $9,062.80 in year one and in each subsequent year the monthly payment increases by $250.

SI Systems believes that its Easton, Pennsylvania facility is adequate for its current operations and will continue to be adequate for future operations after the addendum to the lease agreement becomes effective. 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 previously leased a 32,000 square foot facility in Chia (Cundinamarca), Colombia. The center, located near Bogotá, the capital city of Colombia, served as a sales and administrative office and distribution facility for SEDC. The lease expired in October 2018. The monthly payment was the equivalent of approximately $9,125. 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 monthly payment is the equivalent of approximately $12,998. SEDC continued to rent the Chia facility on a month to month basis until all departments were transferred to the new building. All departments vacated the Chia facility by April 30, 2019.

SEDC also leases office #210 at 14707 South Dixie Highway in Palmetto Bay, Florida. The lease expires at the end of March 2020 and the monthly payment is $1,338. In addition, SEDC leases one apartment in Cajicà and one house in Chía for the use of two members of its management team based out of Miami, Florida for an aggregate monthly payment of the equivalent of approximately $1,265. These leases expire in mid-July 2020 and end of March 2020, respectively.

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	30.5%	
Donna Van Allen & Van Allen Investments	Owner of >5%	Winter Springs, Florida	245,000	Common Stock	14.4%	
William Guegel	Owner of >5%	Pearland, TX	125,064	Common Stock	7.3%	
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	20,000	Common Stock	1.2%	
Jack H. Jacobs	Director	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	5,740	Common Stock	0.3%	
Samuel S. Weiser	Director	C/O Paragon Technologies 101 Larry Holmes Drive Suite 500 Easton, PA 18042	5,740	Common Stock	0.3%	

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

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

Jack H. Jacobs 2012 74

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. He was also a member of the team that produced the segment "Iraq: The Long Way Out," which won the 2011 Murrow Award. Colonel Jacobs was a co-founder and Chief Operating Officer of AutoFinance Group Inc., one of the firms to pioneer the securitization of debt instruments, from 1988 to 1989; the firm was subsequently sold to KeyBank. He was a Managing Director of Bankers Trust Corporation, a diversified financial institution and investment bank, where he ran foreign exchange options worldwide and was a partner in the institutional hedge fund business.

Colonel Jacobs' military career included two tours of duty in Vietnam where he was among the most highly decorated soldiers, earning three Bronze Stars, two Silver Stars and the Medal of Honor, the nation's highest combat decoration. He retired from active military duty as a Colonel in 1987. Colonel Jacobs has been a member of the board of directors of Datatrak International, Inc. (OTCMKTS: DTRK) since 2016; 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 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. He is also the Founder and CEO of JMP OppZone Services, LLC, a fund administration and business support services firm focused exclusively on supporting investment activities in designated Opportunity Zones which were created as part of the Tax Cuts and Jobs Act of 2017 to drive investment into depressed areas of the country. JMP began operations in May 2019. From August 2009 until April 2015, he was a member of the Board of Directors and from August 2014 until 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 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,

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

from 2001 to 2003 and was formerly a partner in Ernst and Young. He received his B.A. in Economics from Colby College and a M.A. in Accounting from George Washington University.

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

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

Name	Age	Office
Hesham M. Gad	41	Chief Executive Officer, Paragon Technologies
Deborah R. Mertz	63	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 their property is the subject. Include the name of the court or agency in which the proceedings are pending, the date instituted, the principal parties thereto, a description of the factual basis alleged to underlie the proceeding and the relief sought. Include similar information as to any such proceedings known to be contemplated by governmental authorities.

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

9) Third Party Providers

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

Securities Counsel:

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

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:

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

Name:	Jose Luis Salgado C.
Firm:	RSM Colombia
Nature of Services:	Statutory Auditor: 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 quarterly disclosure statement of Paragon Technologies, Inc.;

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

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

November 12, 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 quarterly disclosure statement of Paragon Technologies, Inc.;

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

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

November 12, 2019

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

Paragon Technologies, Inc. and Subsidiaries

Quarterly Report

Consolidated Financial Statements - Unaudited

Nine Months Ended September 30, 2019

Paragon Technologies, Inc. and Subsidiaries

Table of Contents
Nine Months Ended September 30, 2019

Paragon Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited)
September 30, 2019 and December 31, 2018
(In Thousands, Except Share Data)

	September 30, 2019	December 31, 2018
Assets		
Current Assets		
Cash and cash equivalents	**$ 1,770**	$ 1,522
Trade accounts receivables, net	**13,797**	14,080
Contract assets	**79**	338
Prepaid expenses and other current assets	**3,416**	3,066
Inventories		
Raw materials	**140**	110
Work in process	**-**	1
Finished goods	**17,816**	13,247
Total Current Assets	**37,018**	32,364
Property and Equipment		
Real estate	**1,500**	1,500
Machinery and equipment	**596**	451
Software	**425**	434
Land	**17**	18
Leasehold improvements	**339**	18
Capital additions in process	**-**	2
Total Property and Equipment	**2,877**	2,423
Accumulated depreciation	**(894)**	(748)
Property and Equipment, Net	**1,983**	1,675
Other Assets		
Marketable securities	**216**	250
Right of use assets	**1,652**	-
Intangible assets, net	**499**	549
Deferred tax asset	**211**	224
Total Other Assets	**2,578**	1,023
Total Assets	**$ 41,579**	$ 35,062

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Balance Sheets (Unaudited) (continued)
September 30, 2019 and December 31, 2018
(In Thousands, Except Share Data)

	September 30, 2019	December 31, 2018
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	**$ 21,122**	$ 20,019
Contract liabilities	**1,477**	1,290
Accrued salaries, wages, and commissions	**370**	310
Accrued product warranties	**83**	104
Income taxes payable	**582**	780
Accrued other liabilities	**2,327**	1,017
Operating lease	**442**	-
Bank loan, line of credit	**7,139**	4,977
Total Current Liabilities	**33,542**	28,497
Long-Term Liabilities		
Operating lease	**1,224**	-
Total Liabilities	**34,766**	28,497
Commitments and Contingencies (Notes 1 and 10)		
Stockholders' Equity		
Common stock, $1 par value; authorized 4,000,000 shares and 20,000,000 shares as of September 30, 2019 and December 31, 2018, respectively; issued and outstanding 1,704,745 shares as of September 30, 2019 and 1,694,745 shares as of December 31, 2018	**1,705**	1,695
Additional paid-in capital	**3,500**	3,500
Retained earnings	**1,693**	1,139
Accumulated other comprehensive loss	**(1,326)**	(872)
Total Paragon Technologies, Inc. and Subsidiaries Stockholders' Equity	**5,572**	5,462
Noncontrolling interest in subsidiary	**1,241**	1,103
Total Stockholders' Equity	**6,813**	6,565
Total Liabilities and Stockholders' Equity	**$ 41,579**	$ 35,062

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Operations (Unaudited)
For the Three Months and Nine Months Ended September 30, 2019 and 2018
(In Thousands, Except Share and Per Share Data)

	Three Months Ended		Nine Months Ended	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Net Sales	**$ 30,842**	$ 20,996	**$ 81,794**	$ 60,125
Cost of Sales	**28,219**	18,825	**74,720**	54,581
Gross Profit on Sales	**2,623**	2,171	**7,074**	5,544
Operating Expenses (Income)				
Selling, general, and administrative expenses	**1,887**	1,598	**5,419**	4,924
Product development costs (income)	**(1)**	-	**2**	6
Total Operating Expenses (Income)	**1,886**	1,598	**5,421**	4,930
Operating Income	**737**	573	**1,653**	614
Other Income (Expense)				
Interest income	**8**	5	**19**	21
Interest expense	**(141)**	(116)	**(374)**	(292)
Realized gain (loss) on investment, marketable securities	**(50)**	(6)	**(58)**	145
Unrealized gain (loss) on investment, equity securities	**74**	(5)	**90**	(6)
Gain on sale of fixed assets	**-**	-	**-**	1
Total Other Income (Expense)	**(109)**	(122)	**(323)**	(131)
Income before taxes and noncontrolling interest	**628**	451	**1,330**	483
Income tax expense	**277**	194	**638**	275
Net income before noncontrolling interest	**351**	257	**692**	208
Net income attributable to noncontrolling interest	**56**	25	**138**	54
Net Income Attributable to Paragon Technologies, Inc. and Subsidiaries	**$ 295**	$ 232	**$ 554**	$ 154
Basic and Diluted Income per Share	**$ 0.17**	$ 0.14	**$ 0.33**	$ 0.09
Weighted Average Shares Outstanding	**1,704,526**	1,694,033	**1,704,526**	1,694,033
Dilutive effect of stock options	**-**	-	**-**	-
Weighted Average Shares Outstanding Assuming Dilution	**1,704,526**	1,694,033	**1,704,526**	1,694,033

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
For the Three and Nine Months Ended September 30, 2019
(In Thousands)

	Three Months Ended		Nine Months Ended	
	September 30, 2019	**September 30, 2018**	**September 30, 2019**	**September 30, 2018**
Net Income	**$ 351**	$ 257	**$ 692**	$ 208
Other Comprehensive Income (Loss)				
Unrealized income (loss) on debt securities, net of tax	**(95)**	(13)	**(101)**	79
Foreign currency translation	**(419)**	(70)	**(353)**	18
Comprehensive Income (Loss)	**$ (163)**	$ 174	**$ 238**	$ 305

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Stockholders' Equity (Unaudited)
For the Nine Months Ended September 30, 2019 and the Years Ended December 31, 2018 and 2017
(In Thousands, Except Share and Per Share Data)

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
Balance at January 1, 2017	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 securities, 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 securities, 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
Net income	**-**	**-**	**-**	**554**	**-**	**138**	**692**
Net change in unrealized loss on debt securities, net of tax	**-**	**-**	**-**	**-**	**(101)**	**-**	**(101)**
Foreign currency translation	**-**	**-**	**-**	**-**	**(353)**	**-**	**(353)**
Stock grants to employees	**10,000**	**10**	**-**	**-**	**-**	**-**	**10**
Balance at September 30, 2019	**1,704,745**	**$ 1,705**	**$ 3,500**	**$ 1,693**	**$ (1,326)**	**$ 1,241**	**$ 6,813**

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2019 and 2018
(In Thousands)

	September 30, 2019	September 30, 2018
Cash Flows from Operating Activities		
Net income	**$ 692**	$ 208
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation of property and equipment	**200**	155
Amortization of intangible assets	**50**	50
Amortization of the right of use assets	**(420)**	-
Change in lease liability	**434**	-
Realized (gain) loss on investments	**58**	(145)
Unrealized (gain) loss on investments	**(90)**	6
Gain on sale of property and equipment	**-**	(1)
Stock based compensation	**10**	11
Deferred taxes	**35**	27
(Increase) decrease in assets		
Trade accounts receivables	**283**	1,380
Contract assets	**259**	90
Inventories	**(4,599)**	(319)
Prepaid expenses and other current assets	**(350)**	(851)
Increase (decrease) in liabilities		
Accounts payable	**1,103**	1,485
Contract liabilities	**187**	336
Accrued salaries, wages and commissions	**60**	113
Income tax payable	**(198)**	(443)
Accrued product warranties	**(21)**	3
Accrued other liabilities	**1,311**	(443)
Net Cash Provided by (Used in) Operating Activities	**(996)**	1,662
Cash Flows from Investing Activities		
Purchases of property and equipment	**(559)**	(817)
Purchases of investments	**(107)**	(170)
Proceeds from sale of property and equipment	**-**	2
Proceeds from sale of investments	**36**	417
Net Cash Used in Investing Activities	**(630)**	(568)
Cash Flows from Financing Activities		
Borrowings (repayments) of bank loan, line of credit, net	**2,162**	(2,149)
Noncontrolling interest distribution	**-**	(50)
Net Cash Provided by (Used in) Financing Activities	**2,162**	(2,199)

See accompanying notes to consolidated financial statements.

Paragon Technologies, Inc. and Subsidiaries

Consolidated Statements of Cash Flows (Unaudited) (continued)
For the Nine Months Ended September 30, 2019 and 2018
(In Thousands)

	September 30, 2019	September 30, 2018
Effect of Exchange Rates on Cash and Cash Equivalents	**$ (288)**	$ 17
Increase (Decrease) in Cash and Cash Equivalents	**248**	(1,088)
Cash and Cash Equivalents at Beginning of Period	**1,522**	2,040
Cash and Cash Equivalents at End of Period	**$ 1,770**	$ 952
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for		
Interest expense	**$ 334**	$ 326
Income taxes	**$ 65**	$ 44
Supplemental Disclosure of Noncash Investing Activities		
Mark to market on available for sale securities, gross	**$ (46)**	$ (38)

See accompanying notes to consolidated financial statements.

Note 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"). 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, and 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. SI Systems believes that its business is not subject to seasonality, although the rate of new orders can vary substantially from month to month. Since the Company recognizes revenue using a cost-to-cost method based on the continuous transfer of control to the customer over time for its systems contracts, fluctuations in SI Systems' sales and earnings occur with increases or decreases in major installations.

Distribution

Our distribution operations are carried out through our subsidiary SED International de Colombia, S.A.S. ("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.

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

Distribution (continued)

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

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

The services provided by our Integrated Services business unit include managed services, printing outsourcing, electronic documents management, electronic invoicing, and IoT. The Integrated Services 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.

In the nine months ended September 30, 2019, the Company had one customer that individually accounted for 17.6% of sales. In the nine months ended September 30, 2018, the Company had one customer that accounted for 14.6% of sales.

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

Investments (continued)

As of September 30, 2019, one customer individually owed the Company 16.3% of trade accounts receivables. As of September 30, 2018, one customer individually owed the Company 15.2% 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.

Principles of Consolidation

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

Use of Estimates

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

Cash and Cash Equivalents

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

Trade Accounts 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 September 30, 2019 and 2018 was $91,819 and $54,878, respectively.

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

Inventories

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

Marketable Securities

The Company adopted Accounting Standards Update (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: (a) the length of time and the extent to which the fair value has been less than amortized cost, (b) the financial condition and near-term prospects of the issuer, (c) whether the market decline was affected by macroeconomic conditions, and (d) 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 OTTI 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 OTTI is separated into (a) the amount of the total OTTI 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 OTTI related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings.

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

Marketable Securities (continued)

The amount of the total OTTI related to all other factors is recognized in other comprehensive income.

The Company has not recognized any OTTI losses for the nine months ended September 30, 2019 and 2018.

The amortized cost and approximate fair value of marketable securities available for sale as of September 30, 2019 and December 31, 2018 are summarized as follows (in thousands):

	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Equity Securities				
September 30, 2019	**$ 177**	**$ 51**	**$ 14**	**$ 214**
December 31, 2018	$ 137	$ 1	$ 58	$ 80
Debt Securities				
September 30, 2019	**$ 528**	**$ 2**	**$ 528**	**$ 2**
December 31, 2018	$ 555	$ 2	$ 387	$ 170
Total Marketable Securities				
September 30, 2019	**$ 705**	**$ 53**	**$ 542**	**$ 216**
December 31, 2018	$ 692	$ 3	$ 445	$ 250

At September 30, 2019, the Company had one debt security in an unrealized loss position for less than 39 months and four equity securities in an unrealized loss position for less than 16 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; 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.

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

Marketable Securities (continued)

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

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

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

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

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2019 and December 31, 2018, 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)**
September 30, 2019	**$ 216**	**$ 216**	**$ -**	**$ -**
December 31, 2018	$ 250	$ 250	$ -	$ -

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

Property and Equipment

Property and equipment acquired in business combinations are recorded at fair value; additions are recorded at cost. Property and equipment are depreciated on the straight-line method over the estimated useful lives of individual assets. The Company capitalizes costs incurred to develop commercial software products or enhancements to software products where such enhancement extends the life of the products. The ranges of lives used in determining depreciation rates for machinery and equipment and software is generally three to seven years and 15 years for real estate. Maintenance and repairs are charged to operations; betterments and renewals are capitalized. Upon sale or retirement of machinery and equipment, the cost and related accumulated depreciation are removed from the accounts and the resultant gain or loss, if any, is credited or charged to earnings.

Leases

The Company adopted ASU 2016-02, *Leases*, and all the related amendments (collectively ASC 842) on January 1, 2019 using a modified retrospective transition approach for all leases existing at January 1, 2019, the date of the initial application. For more information on the adoption of ASU 2016-02 refer to Note 12.

The Company leases certain office, factory, and warehouse space, land, and other equipment, principally under noncancelable operating leases.

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

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

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

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

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

Leases (continued)

The components of lease expense are as follows (in thousands):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Lease Expense		
Operating lease cost	$ 124	**$ 350**
Short-term lease cost	21	**61**
	$ 145	**$ 411**

Lease assets and liabilities consist of the following (in thousands):

	Statement Line Classification	September 30, 2019
Assets		
Operating lease assets	Right of use assets	**$ 1,652**
Current Liabilities		
Operating lease liabilities	Operating lease liabilities	**$ 442**
Noncurrent Liabilities		
Operating lease liabilities	Operating lease liabilities	**$ 1,224**

Other information related to leases is as follows (in thousands):

	Nine Months Ended September 30, 2019
Supplemental Cash Flow Information	
Net cash used for operating activities related to operating leases	**$ 322**
Assets Obtained in Exchange for Lease Liabilities	
Operating leases	**$ 1,984**

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

Leases (continued)

	Nine Months Ended September 30, 2019
Weighted average remaining lease terms (years)	
Operating leases	**4.9**
Weighted average discount rate	
Operating leases	**6.8%**

Future lease payments as of September 30, 2019 and December 31, 2018 are as follows (in thousands):

	September 30, 2019	December 31, 2018
2019	**$ 124**	$ 336
2020	**456**	246
2021	**423**	192
2022	**368**	192
2023	**297**	192
Thereafter	**283**	-
Total lease payments	**1,951**	1,158
Interest	**(285)**	-
Present value of lease liabilities	**$ 1,666**	$ 1,158

Rental expense, net of sublease income, for the nine months ended September 30, 2019 and 2018 was $411 and $287, respectively (in thousands).

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.

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 the nine months ended September 30, 2019 or 2018.

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

Foreign Currency Translation

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.

Revenue and Cost Recognition

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 consolidated financial statements presented.

The restated changes made to our consolidated opening balance sheet as of 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 Systems recognizes revenue using the following steps:

A. Identification of the contract with a customer;

B. Identification of the performance obligations in the contract;

C. Determination of the transaction price;

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

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

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

Revenue and Cost Recognition (continued)

Revenue on a significant portion of SI Systems contracts is currently recognized using a cost to cost method based on the continuous transfer of control to the customer over time. SI Systems transfers control for the system contracts, in two ways: (1) SI Systems' performance creates or enhances an asset that the customer controls as the customized asset is created or enhanced for our Towline brand and (2) SI Systems 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.

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 or cost of sales, and the related impact on operation income, are recorded as necessary in the period they become known. When estimates of total costs to be incurred on a contract exceed estimates of total revenue to be earned, a provision for the entire loss on the contract is recorded in the period in which the loss is determined.

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

Revenue and Cost Recognition (continued)

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

SI Systems offers its Order Fulfillment customers support contracts. The support contracts cover a customer's single distribution center or warehouse where SI Systems products are installed. As part of its support contracts, SI Systems provides analysis, consultation, and technical information to the customer's personnel on matters relating to the operation of its Order Fulfillment System and related equipment and/or peripherals. For SI Systems' revenue for individual support services, the contract is the customer purchase order that outlines the transaction price. Support contracts are prepaid and typically cover a one-year period. Revenue is recognized ratably over the course of the contract term. SI Systems is entitled to payment regardless of what level of support is required and regardless of the outcome. The performance obligation is related to the promise to have a resource available. SI Systems 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 Systems 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 Systems 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 ASC 606. The primary revenue source for SEDC revenue is distribution of IT hardware products.

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

Revenue and Cost Recognition (continued)

SEDC recognizes revenue using the following steps:

A. Identification of the contract with a customer;

B. Identification of the performance obligations in the contract;

C. Determination of the transaction price;

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

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

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

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

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

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

Revenue and Cost Recognition (continued)

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 three months and nine months ended September 30, 2019 and 2018.

Disaggregation of Total Net Sales (in Thousands)

	Three Months Ended September 30, 2019			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 1,698	$ -	$ 26	$ 1,724
Latin America	-	29,102	-	29,102
Europe and Asia	16	-	-	16
	$ 1,714	$ 29,102	$ 26	$ 30,842

	Three Months Ended September 30, 2019			
	Automation	Distribution	Real Estate	Total
Major Goods/Service Lines				
Material handling systems	$ 1,016	$ -	$ -	$ 1,016
Software support	180	-	-	180
Parts and equipment	518	-	-	518
Transactional & Consumer Electronics	-	24,648	-	24,648
Value	-	4,226	-	4,226
Services	-	228	-	228
Residential real estate rental income	-	-	26	26
	$ 1,714	$ 29,102	$ 26	$ 30,842

	Three Months Ended September 30, 2019			
	Automation	Distribution	Real Estate	Total
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 518	$ 29,028	$ -	$ 29,546
Goods and services transferred over time	1,196	74	26	1,296
	$ 1,714	$ 29,102	$ 26	$ 30,842

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

Revenue and Cost Recognition (continued)

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

	Three Months Ended September 30, 2018			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 2,528	$ -	$ 26	$ 2,554
Latin America	-	18,439	-	18,439
Europe and Asia	3	-	-	3
	$ 2,531	$ 18,439	$ 26	$ 20,996

	Three Months Ended September 30, 2018			
	Automation	Distribution	Real Estate	Total
Major Goods/Service Lines				
Material handling systems	$ 1,964	$ -	$ -	$ 1,964
Software support	175	-	-	175
Parts and equipment	392	-	-	392
Transactional & Consumer Electronics	-	15,764	-	15,764
Value	-	2,495	-	2,495
Services	-	180	-	180
Residential real estate rental income	-	-	26	26
	$ 2,531	$ 18,439	$ 26	$ 20,996

	Three Months Ended September 30, 2018			
	Automation	Distribution	Real Estate	Total
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 393	$ 18,429	$ -	$ 18,822
Goods and services transferred over time	2,138	10	26	2,174
	$ 2,531	$ 18,439	$ 26	$ 20,996

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

Revenue and Cost Recognition (continued)

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

	Nine Months Ended September 30, 2019			
	Automation	**Distribution**	**Real Estate**	**Total**
Primary Geographical Markets				
North America	$ 4,822	$ -	$ 72	$ 4,894
Latin America	3	76,502	-	76,505
Europe and Asia	395	-	-	395
	$ 5,220	$ 76,502	$ 72	$ 81,794

	Nine Months Ended September 30, 2019			
	Automation	**Distribution**	**Real Estate**	**Total**
Major Goods/Service Lines				
Material handling systems	$ 3,384	$ -	$ -	$ 3,384
Software support	551	-	-	551
Parts and equipment	1,285	-	-	1,285
Transactional & Consumer Electronics	-	63,116	-	63,116
Value	-	12,679	-	12,679
Services	-	707	-	707
Residential real estate rental income	-	-	72	72
	$ 5,220	$ 76,502	$ 72	$ 81,794

	Nine Months Ended September 30, 2019			
	Automation	**Distribution**	**Real Estate**	**Total**
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 1,285	$ 76,338	$ -	$ 77,623
Goods and services transferred over time	3,935	164	72	4,171
	$ 5,220	$ 76,502	$ 72	$ 81,794

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

Revenue and Cost Recognition (continued)

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

	Nine Months Ended September 30, 2018			
	Automation	Distribution	Real Estate	Total
Primary Geographical Markets				
North America	$ 4,967	$ -	$ 66	$ 5,033
Latin America	12	54,883	-	54,895
Europe and Asia	197	-	-	197
	$ 5,176	$ 54,883	$ 66	$ 60,125

	Nine Months Ended September 30, 2018			
	Automation	Distribution	Real Estate	Total
Major Goods/Service Lines				
Material handling systems	$ 3,325	$ -	$ -	$ 3,325
Software support	554	-	-	554
Parts and equipment	1,297	-	-	1,297
Transactional & Consumer Electronics	-	45,266	-	45,266
Value	-	8,494	-	8,494
Services	-	1,123	-	1,123
Residential real estate rental income	-	-	66	66
	$ 5,176	$ 54,883	$ 66	$ 60,125

	Nine Months Ended September 30, 2018			
	Automation	Distribution	Real Estate	Total
Timing of Revenue Recognition				
Goods transferred at a point in time	$ 1,298	$ 54,861	$ -	$ 56,159
Goods and services transferred over time	3,878	22	66	3,966
	$ 5,176	$ 54,883	$ 66	$ 60,125

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

Revenue and Cost Recognition (continued)

Contract Balances (in Thousands)

	September 30, 2019	December 31, 2018
Receivables	**$ 13,797**	$ 14,080
Contract assets	**79**	338
Contract liabilities	**1,477**	1,290

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 is in excess over amounts recognized as revenue at the end of each period. Revenue on individual support contracts is deferred and recognized on a straight-line basis over the one-year term of each individual support contract.

Revenue recognized during the three and nine months ended September 30, 2019, which was previously included in contract liabilities as of December 31, 2018, is $72 and $1,202, respectively (in thousands).

Revenue recognized during the three and nine months ended September 30, 2018, which was previously included in contract liabilities as of December 31, 2017, is $185 and $1,002, respectively (in thousands).

There were no impairment losses recognized on customer receivables or contract assets during the nine months ended September 30, 2019 and 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.

Product Development Costs

The Company expenses product development costs as incurred.

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

Accrued Product Warranty

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

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

	Beginning Balance January 1	Additions (Reductions) Included in Cost of Sales	Claims	Ending Balance September 30
2019	$ 104	$ (21)	$ -	$ 83
2018	89	64	61	92

Income Taxes

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

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 consolidated financial statements resulting from this election.

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

Income Taxes (continued)

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

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 three and nine months ended September 30, 2019 and 2018 are based on the weighted average number of shares outstanding.

Authorized Shares

On May 20, 2019, at the Company's annual meeting, the stockholders approved an amendment to the Company's certificate of incorporation to decrease the number of authorized shares of common stock from 20,000,000 to 4,000,000. The Company filed a certificate of amendment to its certificate of incorporation on May 20, 2019, to decrease its authorized shares accordingly.

Note 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. 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.

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 2016, and then approved the purchase of SEDC by ARK 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.

Note 2 - Acquisition Information (continued)

SED International de Colombia S.A.S. (continued)

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

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

Assets Acquired	
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
Liabilities Assumed	
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 were included in selling, general, and administrative expenses on the consolidated statements of operations for the year ended December 31, 2017.

Note 3 - Segment Information

Segment information for the nine months ended September 30, 2019 is as follows (in thousands):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net sales to unaffiliated customers	$ 5,220	$ 76,502	$ 72	$ -	$ -	$ 81,794
Gross profit	$ 1,775	$ 5,227	$ 72	$ -	$ -	$ 7,074
Operating income (loss)	$ (3)	$ 1,705	$ (49)	$ -	$ -	$ 1,653
Foreign currency transaction loss	$ -	$ (355)	$ -	$ -	$ -	$ (355)
Interest expense	$ (35)	$ (348)	$ -	$ -	$ 9	$ (374)
Interest income	$ -	$ 24	$ -	$ 4	$ (9)	$ 19
Investment income	$ -	$ -	$ -	$ 32	$ -	$ 32
Income tax expense	$ 18	$ 620	$ -	$ -	$ -	$ 638
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	$ 13	$ 554	$ (49)	$ 36	$ -	$ 554
Total assets at September 30, 2019	$ 5,194	$ 42,708	$ 1,364	$ 216	$ (7,903)	$ 41,579

Note 3 - Segment Information (continued)

Segment information for the nine months ended September 30, 2018 is as follows (in thousands):

	Automation	Distribution	Real Estate	Investments	Eliminations	Consolidated
Net sales to unaffiliated customers	$ 5,176	$ 54,883	$ 66	$ -	$ -	$ 60,125
Gross profit	$ 1,499	$ 3,979	$ 66	$ -	$ -	$ 5,544
Operating income (loss)	$ (180)	$ 835	$ (41)	$ -	$ -	$ 614
Foreign currency transaction gain	$ -	$ 20	$ -	$ -	$ -	$ 20
Interest expense	$ (49)	$ (261)	$ -	$ -	$ 18	$ (292)
Interest income	$ -	$ 29	$ -	$ 10	$ (18)	$ 21
Investment income	$ -	$ -	$ -	$ 139	$ -	$ 139
Income tax expense	$ 11	$ 264	$ -	$ -	$ -	$ 275
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	$ (170)	$ 217	$ (41)	$ 148	$ -	$ 154
Total assets at September 30, 2018	$ 4,468	$ 31,855	$ 1,487	$ 280	$ (7,110)	$ 30,980

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

Note 4 - Line of Credit

During 2019 and 2018, the Company had a $750,000 line of credit facility with its principal bank to be used primarily for working capital purposes. The line of credit facility contains various nonfinancial covenants and is secured by all of the Company's trade accounts receivables and inventories. The availability on the line of credit was $250,000 as of September 30, 2019. Interest on the line of credit facility is based on The Wall Street Journal Prime Rate plus 1.00%. The outstanding borrowings were $500,000 and $525,000 as of September 30, 2019 and December 31, 2018, respectively.

During 2018, 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 was secured by the available securities in the account. The availability on the line of credit was approximately $0 as of September 30, 2019 as there were insufficient assets in the collateral account. Interest on the line of credit facility is based on the one month LIBOR Rate plus 225 bps. The outstanding borrowings were $0 and $26 as of September 30, 2019 and December 31, 2018, respectively.

SEDC currently maintains short-term working capital lines of credit at five local banks as of September 30, 2019, and four local banks as of December 31, 2018. Below is a detail of these lines as of September 30, 2019 and December 31, 2018.

September 30, 2019			**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+3.5%	**$ 3,000,000**	**$ 866,549**	**$ 332,096**	**$ 95,926**	**$ 2,667,904**	**$ 770,623**
Bancoomeva	Local	DTF+5%	**2,500,000**	**722,124**	**2,500,000**	**722,124**	**-**	**-**
Bancolombia	Local	IBR+3%	**10,050,000**	**2,902,938**	**6,144,872**	**1,774,943**	**3,905,128**	**1,127,995**
AV Villas	Local	DTF+2%	**700,000**	**202,195**	**700,000**	**202,195**	**-**	**-**
de Occidente	Local	IBR+3.3%	**6,122,879**	**1,768,591**	**4,582,681**	**1,323,705**	**1,540,198**	**444,886**
			$ 22,372,879	**$ 6,462,397**	**$ 14,259,649**	**$ 4,118,893**	**$ 8,113,230**	**$ 2,343,504**

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	-	-
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	-	-	4,543,698	1,398,169
			$ 10,381,200	$ 3,194,462	$ 3,737,004	$ 1,149,936	$ 6,644,196	$ 2,044,526

In addition, SEDC has taken a two-year local currency loan with another local bank, Bancoldex, in order to finance the relocation expenses to Tocancipá. The loan has an interest rate of DTF+7.5 and monthly capital amortization. The loan balance as of September 30, 2019 is the equivalent of approximately $245,522.

September 30, 2019			**Loan Balance**	
Bank Name	**Currency**	**Rate**	**in '000 pesos**	**in USD**
Bancoldex	Local	DTF+7.5%	**$ 850,000**	**$ 245,522**

Note 4 - Line of Credit (continued)

SEDC also has an accounts receivable factoring credit arrangement with three local banks as of September 30, 2019 and two local banks as of December 31, 2018. Below is the detail of the arrangements.

September 30, 2019		AR Factoring Agreement		Borrowings		Availability	
Bank Name	Rate	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
de Occidente	TBD	$ 4,000,000	$ 1,155,398	$ -	$ -	$ 4,000,000	$ 1,155,398
BBVA	TBD	6,000,000	1,733,097	-	-	6,000,000	1,733,097
AV Villas	9.12%	17,000,000	4,910,442	6,997,293	2,021,165	10,002,707	2,889,277
		$ 27,000,000	$ 7,798,937	$ 6,997,293	$ 2,021,165	$ 20,002,707	$ 5,777,772

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

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 September 30, 2019 and December 31, 2018. 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.

September 30, 2019	AP Factoring Agreement		Borrowings		Availability	
Bank Name	in '000 pesos	in USD	in '000 pesos	in USD	in '000 pesos	in USD
Bancolombia	$ -	$ -	$ -	$ -	$ -	$ -
Bancolombia Panamá	-	-	-	-	-	-
de Occidente	877,121	253,356	877,121	253,356	-	-
	$ 877,121	$ 253,356	$ 877,121	$ 253,356	$ -	$ -

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 Panamá	1,624,875	500,000	1,623,913	499,704	962	296
de Occidente	2,156,302	663,528	2,156,302	663,528	-	-
	$ 12,281,177	$ 3,779,114	$ 10,647,745	$ 3,276,481	$ 1,633,432	$ 502,633

Note 5 - Uncompleted Contracts

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

	September 30, 2019	December 31, 2018
Costs and estimated earnings on uncompleted contracts	**$ 3,462**	$ 4,842
Billings to date	**(4,860)**	(5,794)
	$ (1,398)	$ (952)
Included in accompanying consolidated balance sheets under the following captions		
Contract assets	**$ 79**	$ 338
Contract liabilities	**(1,477)**	(1,290)
	$ (1,398)	$ (952)

Note 6 - Intangible Assets

Intangible assets are as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
	September 30, 2019		
Trade name	**$ 537**	**$ 138**	**$ 399**
Customer relations	**135**	**35**	**100**
	$ 672	**$ 173**	**$ 499**
	December 31, 2018		
Trade name	$ 537	$ 98	$ 439
Customer relations	135	25	110
	$ 672	$ 123	$ 549

Note 7 - Stock Options and Nonvested Stock

2012 Equity Incentive Plan

On July 27, 2012, the Board of Directors of the Company adopted the Paragon Technologies, Inc. 2012 Equity Incentive Plan (the Plan). Under the Plan, the Board 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 ten years. On September 18, 2013, the Board of Directors increased the number of shares of common stock available for grant under the Plan to 350,000 shares.

During each of the nine months ended September 30, 2019 and September 30, 2018, 10,000 shares were granted to an employee. Stock-based compensation expense recognized during the nine months ended September 30, 2019 and 2018 for stock-based compensation programs was $10,000 and $11,400, respectively, for employee stock grants. All of the stock-based compensation expenses were a component of selling, general, and administrative expenses.

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 involves assumptions that are highly subjective, judgmental, and sensitive in the determination of compensation cost.

Restricted Stock - Noncontrolling 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.

Note 8 - Employee Benefit Plans

The Company has a defined contribution Retirement Savings Plan (the Savings Plan) for its U.S. employees. Employees age 21 and above are eligible to participate in the Savings Plan. The Company's matching contribution for the nine months ended September 30, 2019, and 2018 was $15,556 and $15,855, respectively. The Savings Plan also contains provisions for profit sharing contributions in the form of cash as determined annually by the Company's Board of Directors. There were no profit sharing contributions for the nine months ended September 30, 2019, and 2018. Total expenses for the Savings Plan, including Savings Plan expenses, were $15,556 and $15,855 for the nine months ended September 30, 2019, and 2018, respectively.

Note 9 - Income Taxes

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

	Nine Months Ended September 30, 2019	Nine Months Ended September 30, 2018
Federal		
Current	**$ 4**	$ 1
Deferred	**-**	-
	$ 4	$ 1
State		
Current	**$ 1**	$ -
Deferred	**-**	-
	$ 1	$ -
Foreign		
Current	**$ 633**	$ 274
Deferred	**-**	-
	$ 633	$ 274
	$ 638	$ 275

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.

Note 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 September 30, 2019.

Note 11 - Stock Repurchase Program

On May 14, 2015, the Company's Board of Directors approved a program to repurchase up to $250,000 of its outstanding stock. There were no stock repurchases during the nine months ended September 30, 2019 and 2018.

Note 12 - Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board issued ASU 2016-02, *Leases*, which amends existing guidance to require lessees to recognize assets and liabilities on the balance sheet for the rights and obligations created by long-term leases and to disclose additional quantitative and qualitative information about leasing arrangements. This was subsequently amended by ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*, ASU 2018-10, *Codification Improvements to Topic 842, Leases*, and ASU 2018-11, *Targeted Improvements* (collectively ASC 842). ASC 842 established a ROU model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with an initial term longer than twelve months. Leases are classified as finance or operating under the new standard, with classification affecting the pattern and presentation of expense recognition in the income statement.

The Company adopted ASC 842 as of January 1, 2019 using a modified retrospective transition approach for all leases existing at January 1, 2019, the date of the initial application. Consequently, financial information will not be updated and disclosures required under ASC 842 will not be provided for dates and periods before January 1, 2019.

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

Note 12 - Recent Accounting Pronouncements (continued)

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

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

For arrangements where the Company is the lessor, the adoption of ASC 842 did not have a material impact on its consolidated financial statements as the majority of its leases are operating leases embedded within managed services contracts. ASC 842 provides a practical expedient for lessors in which the lessor may elect, by class of underlying asset, to not separate nonlease components from the associated lease component and, instead, to account for these components as a single component if both of the following are met: (a) the timing and pattern of transfer of the nonlease component(s) and associated lease component are the same and (b) the lease component, if accounted for separately, would be classified as an operating lease. The accounting under the practical expedient depends on which component(s) is predominant in the contract. The Company has elected the above practical expedient and determined that the lease components are predominant and is accounting for the sublease per the guidance of ASC 842-30.

In June 2016, the Financial Accounting Standards Board issued ASU 2016-13, *Financial Instruments--Credit Losses*, which amends the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company is required to adopt this ASU no later than January 1, 2021, with early adoption permitted. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. In October 2019, the FASB voted in favor of finalizing its proposal to defer the effective date of this standard to apply to the Company for annual reporting periods beginning after December 15, 2022 and interim periods within those fiscal years. Subject to any additional guidance or clarification from the FAS or the SEC, the Company believes it will qualify for this proposed deferral. The Company is in process of evaluating the adoption of ASU 2016-13 on its consolidated financial statements.

Note 13 - Subsequent Events

Events and transactions for items that should potentially be recognized or disclosed in these financial statements occurring subsequent to the consolidated balance sheet date of September 30, 2019, have been evaluated through November 12, 2019, the date which these consolidated financial statements were available to be issued.