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

Paragon's per share book value decreased by 22.0% in 2016, to $1.67 per share, compared with $2.14 per share in 2015. Once again, shares outstanding remained unchanged year over year. Our decline in per share book value was primarily a result of an acquisition related asset write off charge partially offset by a meaningful gain in Paragon's investment portfolio.

The performance of our material handling operations in 2016 business was disappointing. In addition, the continued declining performance of Innovative Automation, which we acquired in 2013, resulted in SI Systems recording a full asset write off charge of the business. We no longer believe that Innovative Automation (IA) will have any positive material impact on our material handling operations.

Despite all the positive ways IA was supposed to bolster the offering of our material handling operations, I failed to give the appropriate weight to the most important element regarding *any* acquisition: the people and culture you are acquiring.

From here on out, any future acquisitions (and we want more!) are less likely to be unsuccessful due to a different corporate culture. Company culture is, in our view, one of the most important yet least thought about elements in long-term business performance. As your Chairman and CEO, one of my most important functions is defining and fostering Paragon's culture. Paragon's culture can be summed up as being corporate in form, but partnership in behavior. We favor a decentralized organizational structure that strongly aims to promote a culture of mutual trust, transparency, and integrity.

In March 2017, Paragon announced that it had acquired SED Colombia from SED International Holdings, Inc. We believe that SED Colombia, along with its President and now our partner Ronell Rivera, are highly representative of the culture we espouse here at Paragon. I will provide more color on our acquisition of SED Colombia and the transformative effect we believe it brings to Paragon.

In last year's letter, I noted that

> *Long-term shareholders, - I being one of them – clearly understand that Paragon's operating performance has been a rollercoaster ride over the past several years. During the six year period between 2010 and 2015, Paragon did not have two consistent years of operating profit but rather alternated between operating profit and operating loss. This one-step forward, one-step backward performance is something I am acutely aware of and am dissatisfied with.*

We failed to get off that roller coaster in 2016. Still, we continue to have confidence in our material handling businesses and the activity we are seeing for our services and solutions. Repeating my statement from last year, we are constantly working to achieve more consistent operating results, although we do not expect consistency to be a straight upward sloping line. Additionally, we expect that the acquisition of SED Colombia should, over time, provide another level of revenue and profitability that will strengthen Paragon's operating power. And as always, under all operating conditions, we will adhere to our philosophy of maximum efficiency and cost-consciousness.

2016 Year in Review

Paragon reported a pre-tax loss of $1.3 million in 2016 compared with a pre-tax profit of $1.1 million in 2015. Our net loss in 2016 was $1.1 million as a result of favorable tax benefit of $223,000. In 2016, we determined that our acquisition of Innovative Automation was no longer expected to generate any future meaningful revenue and as a result we fully wrote off the value of the asset, incurring a charge of $1 million, consisting of $723,000 in intangible assets and $283,000 in fixed assets.

With the benefit of hindsight, the fate of our acquisition was pre-determined. Shortly after the acquisition was made, we realized that the culture and values imbedded in IA did not match that of Paragon's. Management at IA was not what we hoped and a very valuable lesson was learned. From the onset, revenue expectations were never met and we simply lost confidence in both IA's senior management and that future revenue potential could be realized. This realization was most disappointing but has also proven to be most valuable to us going forward.

SI Systems

Our material handling business experienced an unfavorable year in 2016 generating an operating loss of $1.4 million, with $1 million related to the acquisition write off noted previously. One key multi-million project that we believed would materialize in 2016 did not. Additionally, we experienced lower business volume in 2016.

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

Our material handling operations consist of two distinct divisions. Our Production and Assembly division (PAS), today represents the foundation of our material handling business and delivers the majority of our revenues. Our PAS provides automated material handling systems to manufacturer assembly lines and distribution center operations via our branded towline conveyance and transportation technologies. We don't see the size of this market growing and in fact it will likely shrink over time – it's the "old" material handling business. But SI Systems is perhaps the best known provider of towline and conveyor systems in the industry today. Our PAS systems are sold primarily to end users, who then typically rely on SI for future enhancements, additions, or repairs to the system. This aftermarket business generates significant margins for us. Our customer relationships tend to be very cooperative and long-lasting and we benefit enormously from an existing installed base of high quality customers who are likely to come to us for replacement and enhancement projects for years after system installation. This division is a steady, cash generating businesses that we will continue to focus on.

We believe our biggest opportunities for future growth in material handling, however, reside within our Order Fulfilment Systems (OFS) division, which provides order fulfillment systems and dispensing solutions to customers via our suite of branded and patented products. Here, we continue to see significant demand opportunity as a result of the continued growth in e-commerce as well as specific areas such as prescription fulfillment and health & beauty. The need for accurate and quick product fulfillment appears to be a long-lasting tailwind favoring fulfillment solutions providers.

We believe that for our fulfillment business to experience the growth we believe is possible, SI will have to continue focusing on developing this division. More and more, our customers are requiring specific dispensing and total material handling solutions. Currently, we are seeing intriguing opportunities by partnering with full system integrators who can go out and capture major complex projects who then come to us for the dispensing work. Inasmuch as our larger partners innovate, we too must do the same. Over the coming months and years, we intend to intensely investigate our opportunities and challenges in our fulfillment business given its vital effect on our future business operations.

So while we remain optimistic about our material handling business our short-term focus is to continue to leverage our brand name, customer relationship, and industry partners to generate consistent revenues and profits. Concurrently, as we look down the road we are fully aware that we will need to opportunistically invest in our order fulfillment capabilities so that we may capture a bigger slice of this growing market. Automation, while disruptive, we believe is the future of future economic growth and productivity.

Our order pipeline continues to remain healthy. As of May 2017, our order backlog was approximately $5.4 million.

SED Colombia

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

Based in Chia, Colombia, SED International de Colombia (SEDC) is the 4th largest IT distributor in Colombia and the 10th largest information technology company in Colombia. SED Colombia distributes IT hardware products that include PC's, Laptops, Servers, Workstations, Printers, Networking, Storage, Monitors, Projectors and accessories from leading manufactures like HP, Hewlett Packard Enterprise, Lenovo, Dell, Asus, Epson and others. SEDC currently has 105 employees who serve approximately 2,500 customers in over 100 cities and municipalities throughout Colombia.

SEDC operates from a 25,000 square feet distribution facility in Chia Cundinamarca, just a few miles north of the Colombian capital of Bogota. From this facility SEDC is able to provide same day delivery to Bogota and one day delivery to most cities in the county. In addition to distribution operations and logistics services the company offers pre-sales and post-sales services to its customers as well as credit terms and marketing support.

We expect to book a gain of approximately $4.0 million in 2017 due to our acquisition price being below the company's deemed "fair market value" under accounting rules. While it is unlikely that Paragon could turnaround tomorrow and sell SED Colombia for $5.5 million, we do believe we acquired a good business for an even better price.

In September of 2016, SED International Holdings, Inc., an international distribution company in which Paragon was the largest shareholder, entered into a voluntary business restructuring under Chapter 11 of the U.S. bankruptcy code. Ark Investments was accepted as the stalking horse bid for SED Colombia, a wholly owned subsidiary of SED International Holdings. In February 2017, Paragon's offer was accepted.

Consequently, it is a near certainty that SED International Holdings' equity will be wiped out as a part of this restructuring and therefore Paragon's $3.1 million equity investment - which Paragon had already written off in 2013 - will also be wiped out. It is important for shareholders to account for this "opportunity cost" in our acquisition of SED Colombia – we certainly do.

While we believe our acquisition price for SED Colombia stands on its own, we will always factor in the opportunity cost in our measurement of SED's return on investment to Paragon. We feel very good about the future prospects of this business and the potential opportunities it will create for future growth.

In 2016, SED Colombia generated approximately $66 million in sales and generated approximately $600,000 in net profits. We believe 2017 will be a similar if not better year for SEDC. It is important to note, however, that for the last three years SED Colombia was severely anchored by the legacy liabilities that existed at its U.S. counterpart SED International, Inc. While not obligated to do so, SED Colombia sent millions of dollars to SED International. This transfer of working capital led our vendor partners in Latin America to restrict credit to SED Colombia out of an abundance of caution, decisions we did not like but fully understood and respected. Nevertheless, we were able to maintain excellent relationships with our vendors during an extremely difficult period.

Today, SED Colombia is once again operating in an environment free of the restrictions that it once had. It will take time to regain what once was a business producing over $100 million in annual sales, but we are very encouraged about the progress we are already seeing.

SED Colombia will be ably managed by our partner and SEDC President, Ronell Rivera. Ronell is a long-time veteran in the distribution industry and started SED Colombia from the beginning over 20 years ago. He is highly respected in Latin America amongst our many vendor partners and customers. His leadership, integrity, and corporate stewardship are a perfect fit with Paragon's culture and will enable SEDC to thrive and expand under the Paragon umbrella.

Paragon will ultimately own 80 percent of SED Colombia while Ronell will own the remaining 20 percent pursuant to a vesting schedule. We believe Ronell's co-ownership to be a key advantage for Paragon and SED Colombia going forward. As majority owner, Paragon will consolidate SED Colombia's results and record a minority interest deduction on the income statement to account for the equity interest we do not own.

Investment Activities

Marketable Securities

The following chart lists Paragon's key minority investments, comprising the substantial majority of our portfolio, as of April 30, 2017:

Security	Cost Basis	Market Value
Common Stock		
5,375 sh National Security Group	$54,495	$81,016
9,220 sh Rubicon Technology*	$84,972	$69,150
Preferred Stock		
10,000 sh Meritage Hospitality 8% Series B	$89,945	$258,500
Fixed Income		
$900,000 Exco Resources, 9/15/2018, 7.50%	$505,733	$751,500
$150,000 Comstock Resources, 4/1/2019, 7.75%	$117, 208	$124,500

*Shares reflect a 10 for 1 reverse split enacted by Rubicon in May 2017.

In 2016, Paragon's investment portfolio recorded a 42% increase in market value or $479,000 on investment capital of $1.14 million. In addition, Paragon received dividend and interest income of approximately $34,000 and generated net realized investment gains totaling $138,000 for the year.

Our returns compare with an S&P 500 return of 11.9%, which includes the reinvestment of dividends. We remain optimistic about the long-term performance of our securities portfolio. (Please note: this reference to a realized gain does not incorporate any unrealized gains or losses in our portfolio. Please refer to Paragon's annual report for a breakdown of current unrealized gains and losses).

In 2016, Paragon began investing significantly in the unsecured bonds of various energy related companies. We believed the price to value dislocation of these securities to be incredibly favorable to a patient long-term investor. In many cases, the market price of these securities was such that after 2 years of interest payments, our entire purchase price would be recouped. More importantly, our view is that as these payments are made the market price of these securities should appreciate significantly, therefore creating an incredible windfall over the long-term.

Between January and March of 2016, we purchased $150,000 of the Sanchez Energy June 2021 7.75% for approximately 50 cents on the dollar. Later that year, we sold that position at prices ranging from 93 to 97 cents on the dollar. Normally, we would have held on longer to capture more interest payments as our purchase price equated to a yield to maturity of 30 percent (without getting into granular math, think of yield to maturity as the total annual return including interest payments if the bond was held to maturity and redeemed at par, or 100% of face value). We sold because we found similar but much more attractive opportunities in the bonds of similar businesses.

In selecting these fixed income securities, during a time when most energy companies were facing cash flow issues due to severe decline in oil prices, we focused on:

a) Companies that had little or no bank debt which is payable on demand and holds a priority claim over all other debt
b) Shorter duration bond maturities
c) Companies with high quality assets and lower costs of production
d) Management or insiders with meaningful equity stakes in the business – equity that would get wiped out if the bonds defaulted.

Under the above conditions, we believe that any such business will be extremely incentivized to ensure their obligations to bondholders and take any reasonable actions to ensure such. We have invested a significant portion of Paragon's investable cash in these securities. We believe Paragon's investment in these securities will do very well over the foreseeable future.

We have added modestly to our position in Rubicon Technology. Our original investment in Rubicon was spurred by the impeccable quality of its balance sheet: debt free, cash rich, and owned real estate. The operating business was another matter: years of massive and growing declines that were shrinking the valuable balance sheet. As shareholders we felt it prudent to privately discuss our concerns and solutions with Rubicon's management. In those discussions we shared our concerns and our thoughts on possible solutions for the company. As we continued to see financial deterioration at Rubicon, we decided to take our concerns public to other shareholders.

We shared specific details of our plan, namely that Rubicon needed to significantly reduce or end its loss generating sapphire operations, monetize its owned real estate, intelligently allocate its cash resources, and capture the advantages of its tax assets.

Earlier this year, Rubicon publicly announced that it was adopting such a plan. Furthermore, Rubicon reached out to Paragon offering to appoint me as a strategic advisor to the Board to aid with those efforts. We welcomed both gestures. Unfortunately, we concluded that such an engagement of my time was not in the best interest of Paragon on the terms proposed. We do, however, remain interested in fixing Rubicon as we believe there could be tremendous potential value in our investment under the right guidance.

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

As the Chairman, CEO, and chief capital allocator at Paragon, shareholders are, to a great extent, relying on my ability to effectuate value creating decisions that ultimately lead to in an increase in Paragon's per share intrinsic value. I am the company's largest shareholder. My financial net worth and that of the Gad family is fully hitched to the Paragon wagon. I will win alongside our shareholders, not at your expense. More importantly, I will experience the greatest financial pain as a result of any deterioration in Paragon's value. I believe this alignment of interests between management and shareholders to be a fundamental tenant of long-term business success.

The Annual Meeting

The Annual Meeting will be held on Tuesday, June 20, 2017 at 8:30 a.m. EST at the Cleveland offices of our corporate counsel, **Thompson Hine LLP, 3900 Key Center, 127 Public Square, Cleveland, Ohio 44114**

We will start the meeting promptly at 8:30 a.m., and we will devote the bulk of the meeting to shareholder Q&A. We encourage all shareholders to attend as this will provide the best forum to communicate with management.

Sincerely,

Hesham Gad,
Chairman and Chief Executive Officer
May 10, 2017