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

Paragon's per share book value increased by 8.8% in 2018, to $3.22 per share, compared with $2.96 per share in 2017. In last year's letter to shareholders, I noted that 2017 book value was $3.58 per share, a figure that included the equity portion of the non-controlling interest in SEDC (Paragon owns 80% of SEDC). The accurate book value figure should exclude the slice of SEDC we do not own. During January of 2018, shares outstanding increased by 10,000 shares as a result of stock grant given to our CFO. During January of 2019, a final 10,000 shares were issued to our CFO. Both grants were treated as compensation.

To remind existing – and for the benefit of new shareholders – Paragon, through its wholly owned subsidiary, Ark Investments, acquired 100% of the outstanding stock of SED International de Colombia ("SED Colombia" or "SEDC") for $1.4 million in February of 2017. As a part of the terms of our acquisition, Paragon would transfer 20% of its equity interest in SED Colombia to our partner Ronell Rivera who serves as the President of SED Colombia.

Last year, I stated that Paragon "couldn't be happier with this [80/20 ownership] arrangement and we believe that the experience and integrity that Ronell will deliver to SEDC will multiply SEDC's business value by factors over the coming years. We will take 80% of a growing, well managed business any day over 100 percent of an alternative." Keep reading and you will see that so far, our expectations have been met.

The acquisition of SED Colombia in 2017 was a transformative one for Paragon. Paragon's strength and diversity was further fueled by our real estate acquisitions in at end of 2017 and beginning of 2018. In a little over two years, Paragon has transformed itself from a single subsidiary automation business operating in the U.S. to a multi-national holding company with three distinct businesses: automation, technology distribution and services, and real estate.

2018 Year in Review

Paragon's revenues in 2018 were $85.1 million compared to $64.6 million in 2017. The increase in revenues of 31.7% reflects both organic sales growth at SED Colombia and a full year of revenues from SEDC in 2018 compared to 10 months of revenue inclusion in 2017. Paragon reported pre-tax income before income taxes and non-controlling interest of $1.7 million in 2018 compared with a pre-tax income of $4.2 million in 2017. Net income in 2018 was $1.0 million compared to net income of $2.7 million in 2017. In 2017, net income benefited from a $4.2 million gain on bargain purchase relating to Paragon's acquisition of SED Colombia.

In 2017, income was positively impacted by a $4.2 million "gain on bargain purchase" related to the acquisition of SED Colombia. Under generally accepted accounting principles ("GAAP"), acquisitions are evaluated against the fair value of the assets acquired to determine the impact to the balance sheet and income statement. Paragon paid $1.4 million in cash to acquire a business whose net assets were deemed, based on an independent valuation analysis, to have a greater value than our purchase price, thus the "gain" recorded on the income statement.

Another important note: In 2018 new accounting rules required companies holding equities, as we do, to report any unrealized gains or losses from those equities. In 2018, Paragon had $56,000 of *unrealized losses* from its equity portfolio which is recorded as a deduction in net income. It's very important for shareholders to understand the significance of this new rule and the impact it will have on reported net income.

Stock prices move up and down every day based on the opinions of market participants. In the short-run these movements mean very little. Volatility that creates a loss one day can lead to a gain the next. We are of the opinion that the reporting of unrealized gains or losses based one reporting date each quarter means very little in terms of evaluating the overall performance of Paragon over the long term. As this letter went to print, unrealized losses were approximately $37,000 without any action on our part.

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

<u>Distribution</u>

Our distribution business SED Colombia had a great year in 2018. Revenues grew 20% to $77 million while profit before tax grew 34% to $1.2 million. Net income, after accounting for currency adjustments, grew 41% to $630,000.

Our distribution business in Latin America is subject to fluctuations in currency. SEDC transacts its business in Colombian pesos which then are converted to US dollars for financial reporting purposes. We spend no time trying to engage in hedging activities. We accept the fact our ownership of a foreign subsidiary creates currency fluctuations but more importantly, we believe that the long-term net results of hedging currencies are generally negative. Our time is better spent focusing on what we know, as opposed to speculating on the unknown gyrations of currencies. In fact, our distribution business is less affected by the actual change in currency as opposed to currency *volatility*. We distribute thousands of products each day and generate consistent levels of sales regularly. A two percent change in exchange rate during the month is far likely to have a greater impact on our dollar earnings compared to a higher percent change in exchange rate over the course of the year

The operating performance of our distribution operations in 2018 can be credited to Ronell Rivera and his team at SEDC. The distribution of electronic products is a commodity type business with few competitive moats. We can't raise prices or convince our customers that our HP servers are better than our competitors HP servers. But what we can do – *and we believe we do well* – is provide superior logistical service across all facets of our distribution channel. The motto at SEDC is to be the most efficient distributor, not the biggest. We believe that operational approach sets us apart from many of our competitors and believe our future performance will continue to widen the gap between our business and the competition. Our knowledge of the industry, our rational behavior, and our logistical superiority is the moat we aim to widen each day.

But we aren't just focusing on distribution. In last year's letter I noted that, in 2017, SEDC launched the Integrated Solutions and Services Business Unit to complement our hardware and software sales with a line card of IT services and integrated solutions. This business unit leverages our existing business of selling hardware and software and selling integrated services which typically generate higher margins, recurring revenues. In 2018 SEDC generated nearly $2 million in sales from this divisions at higher margins than our traditional operations. In 2018, SEDC further leveraged its assets by providing logistical services to one of our largest customers and we believe providing such logistical solutions to current and new partners to be another opportunity to expand our business.

We believe our brand and reputation provides us a competitive advantage. We intend to exploit those advantages at every opportunity it makes sense to do so in order to separate us from the competition. Our results in 2018 reflect the success of some of those initiatives and we are excited about the other opportunities we see. We won't get into specifics because we know our competitors are watching us very closely.

Last year, SEDC decided to relocate its operations at the beginning to 2019 to a more advantageous municipality. The move not only relocates SEDC to a more robust business region, but doing so also qualified SEDC for significant tax savings that we expect to realize over the next 7 to 10 years.

Ronell and his team are committed on not only growing our business but strengthening our balance sheet. We want our vendors and customers to know that they can rely on us under all economic environments. While most of our competitors are busily trying to mimic one another, we understand that in order to beat the competition we have be different than the competition.

I'd like to take a few moments to provide our shareholders and other engaged readers with some insight into Colombia. Sadly, most Americans' understanding of Colombia has been provided to them through the lens of the media which sensationalizes the dramatic events of the last 30 years that have made Colombia infamous in the minds of many.

What television doesn't tell you is that Colombia is one of only twenty countries that has a free trade agreement with the United States. Colombia's population of 48 million is young, energetic, and educated. According to the World Bank, Colombia is the third best business environment in all of Latin America, behind Mexico and Chile. Colombia consistently remains one of most attractive destinations for foreign direct investment in Latin America. According to the World Bank, GDP is expected grow by over 3% over the next several years. The information technology sector in Colombia grew by 18% per annum over the past decade according to the IDC and future growth expectations are just as attractive. Most of all, Colombians are more acutely aware of their history and are more determined than anyone to focus on the future potential of the country.

Automation

In 2018, our automation sales of $8.1 million were down approximately 10% from the prior year. Operating income improved to $472,000 in 2018 from an operating loss of $(833,000) in 2017. Perhaps more telling of our past year was that our order backlog – a barometer we view as the most valuable measurement of our business performance – more than doubled year over year.

Our automation business SI Systems, LLC (“SI Systems” or “SI”) achieved many milestones in 2018 that excite us going forward. Last year, I noted that SI was implementing new initiatives that would lead to more revenue opportunities by pursuing a focused market strategy that would: a) lead to more robust pipeline of projects; b) create design and engineering services; and c) entering into partnerships with partners that we can work with to provide more comprehensive material handling solutions. We checked off all three boxes in 2018.

In 2018, SI expanded its order fulfillment systems suite of solutions through new partnerships that allow us to now offer our customers a more robust fully automated warehouse solution. These partnerships include automated guided vehicle technology, vertical storage and retrieval solutions, and advanced conveyor solutions. In addition to providing one of the fasted and accurate inventory picking and dispensing solutions, we can now offer precision guided movement of inventory, the most efficient storage and retrieval of inventory, and one of most cost effective and best engineered warehouse conveyance systems. At SI Systems, our message to our potential partners is that we can now “Automate Your Future Growth.”

Now more than ever, automation is becoming an indispensable (pun intended) requirement for businesses. One word describes why: labor. Labor is facing a historic shortage today and business owners can ill afford to wake up each day worrying about labor that can be permanently replaced with automation. Unlike labor, automation is stable, precise, accurate, and reliable over many years. Automation is the best outsourcer for labor today and that trend will only grow over the coming years. Automation is also, contrary to popular belief, a net positive for the future of labor as the adoption of automation will increase the demand for better, higher paying jobs.

Yet despite the increased demand for automation, understanding automation’s benefits is still new to many of those looking to automate. At SI, we hold the view that uniformed automation is worse than no automation at all. For many businesses, automation represents the biggest transformative investment they will make for their future growth. Too little automation and you risk losing significant productivity advantages and an unacceptable return on investment. Too much automation and you risk chaos, confusion, business disruption and misallocating capital.

SI seeks to eliminate these important risks by our offering of specific, highly tailored design and engineering services that provide our partners with a proprietary, comprehensive blueprint of what automation needs are needed for their respective business to deliver the best return on investment. We implemented this value added service in 2018 and are already working with new clients to deliver automation solutions that will enable them to make the most intelligent, productive, and informed automation investment decisions based on our proprietary analysis of their operations.

Real Estate

Last year was effectively the first year of our real estate operations. Our wholly owned subsidiary, Ohana Home Services, LLC (“Ohana”) acquired residential real estate in Las Vegas in two separate transactions in December 2017 and January 2018.

Ohana (Ohana is the Hawaiian word for “family” in a broad communal sense) acquired its real estate for $1.5 million in cash. After expenses and excluding depreciation, Ohana generated pre-tax income of approximately $25,000 in 2018, representing an unlevered return of approximately 1.7 percent. We had a few months in 2018 without rent as we acquired a property in January that was leased in March. In 2019, we expect a substantial improvement in pre-tax income as a result of increased rents and full occupancy during the year.

Our expectation is for an annual unlevered cash return of 3.0% to 4.5% each year. In addition, recent market transactions as well current market prices imply that our real estate assets are now being valued in excess of $2 million, an approximate appreciation of 33% in just over a year. Real estate values, of course, are ultimately determined by the price someone is willing to pay at any given point in time. We intend to continue holding our real estate assets for cash flow purposes and will monetize them only if opportunistic to do so.

The city of Las Vegas is undergoing a major transformation in perception and development. For the past several years, Las Vegas has been ranked as one of the top 5 fastest growing cities in the nation. Tourism is at record highs with nearly 43 million visitors in 2018. So far in 2019, tourism shows no signs of letting up. Migration is increasing significantly, especially from California baby boomers as retirees are increasingly attracted to entertainment options, low living costs, and no state taxes in Nevada. Today, more than two-thirds of the revenue generated by casinos is coming from dining and entertainment reflecting the growing desirability of Las Vegas as a non-gaming destination. Entrepreneurs are flocking to Vegas thanks to the low cost of living, fast and reliable internet connectivity, vast entertainment options, and proximity to Silicon Valley. The recent expansion of the National Hockey League’s Las Vegas Knights has been a home run for the city. In the next two years, there will be an NFL team as well as hopes for a possible NBA team following the recent addition of a WNBA franchise in the city.

We are optimistic on the long-term prospects of our real estate assets as well the future opportunities for Ohana to expand its real estate activities. We like many areas of real estate business and the long-term business fundamentals inherent in them.

Marketable securities

The following chart lists Paragon’s key minority investments, comprising the substantial majority of our portfolio, as of March 15, 2019:

Security	Cost Basis	Market Value
Common Stock		
200 sh. Apple, Inc.	$36,751	$37,388
600 sh. Stoneco Ltd., Cl A	$15,932	$19,128
Fixed Income		
$1,010,000 Exco Resources, 9/15/2018, 7.50%	$538,901	$151,500
$100,000 Jones Group, 3/15/2019, 6.875%	$16,203	$11,500

In 2018, Paragon utilized assets from its investment portfolio towards the acquisition of our real estate.

Our investment philosophy remains unchanged so I'll repeat what we include each year as a great reminder to existing shareholders:

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

Last year I noted that Exco Resources was undergoing a restructuring of its operations. It now appears likely, the end result for our bonds will be a debt for equity swap. As a reminder, Paragon acquired $1 million in face value EXCO bonds for 54 cents on the dollar, or a cost of approximately $540,000. During our holding period Paragon has collected $87,000 in interest payments for a net cost of approximately $453,000. We intend to hold our fixed income holdings in EXCO until the restructuring is completed.

Finally, a word on the current market price of Paragon. While we refrain from opining on our stock price, we feel it appropriate given the meaningful business transformation that Paragon has recently undergone.

Over the past two years, it is our view that Paragon has undergone the most meaningful transformation in its history. We believe this transformation has created real value.

In 2017 Paragon paid $1.4 million for SED Colombia, one of the largest IT distributors in Colombia. What did we get for that price? We got a business that generates approximately $70 million in annual revenues, and what we believe to be attractive long-term growth opportunity.

In 2017 and 2018, Paragon's wholly owned subsidiary Ohana Home Services acquired, for cash, two residential units in a 5-star rated residential tower in Las Vegas, Nevada for $1.5 million. We owe nothing on these assets. Based on publicly listed for sale figures, current market values suggest those properties now to be worth in excess of $2 million.

Despite the continued disconnect between price and value, our share price has remained stagnant. We believe part of the reason has to do with the inconsistent growth in profits and cash flow, the ingredients that create long-term value creation. Now that Paragon has multiple levers of growth, we believe the future performance is going to be different than the past.

At Paragon, we seek shareholders that are focused on the long-term, who want to both preserve and compound capital over the long run. As such we don't offer earnings estimates or conference calls. This is mainly by design. However, we do feel that Paragon may benefit by reaching out to the broader investment community. We are currently exploring such ideas and expect to take such initiatives in 2019.

Of course, our opinions are just that, but we support them by our businesslike evaluation of Paragon. We believe that if we continue to execute on our objectives Paragon's market price should be more reflective of the Company's intrinsic value.

As Chairman, CEO, and chief capital allocator at Paragon, I also 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 Monday, May 20, 2019 at 9:30 A.M. EST at the headquarters of our Company's legal counsel, **Thompson Hine, 127 Public Square, Suite 3900, Cleveland, OH 44114.**

We will devote the bulk of the meeting to shareholder Q&A. We highly encourage all shareholders to attend as this will provide the best forum to communicate with management. We hope to see as many of you as we can. Come with hard questions!

Sincerely,

Hesham "Sham" Gad,
Chairman and Chief Executive Officer
April 1, 2019