To the Shareholders of Paragon Technologies:

Paragon's earnings per share in 2021 were $1.97 compared to $2.11 in 2020. As Paragon has evolved into a diversified holding company with distinct operating subsidiaries, we believe earnings power to be a more appropriate measurement metric versus per share book value. For instance, Ohana Home Services, our real estate subsidiary, grew its wholly owned real estate portfolio in 2021. If, as we believe, the value of our real estate assets grows over time, current accounting rules require us to record the value of our real estate owned at cost on our balance sheet. Any inherent increase in market value will only materialize once monetized. We don't disagree with these accounting rules; real estate market values can be very subjective in the short run but over time, we believe that our real estate assets will increase.

Borrowing from investor Shelby Davis: money is made when you buy an asset, you just don't realize it until you sell. What you pay to acquire something matters most in determining future returns. We feel good about the future value of our real estate assets. More so, based on our judgement of the potential future earning power and growth of our businesses, we believe Paragon's intrinsic value per share to be substantially greater than book value. In 2021, Paragon's per share book value increased to $8.57 from $6.92 in 2020, respectively.

We are very proud of the business that Paragon has become over the past five years. Prior to 2017, our revenues were derived from just one source, our supply chain automation business. Today, Paragon's business activities involve automation, distribution, real estate, and marketable securities. Our objective continues to be focused on growing our operating earnings organically and through acquisitions of other businesses in part or whole. We encourage anyone interested in learning more about our corporate culture and acquisition criteria to visit our investor relations page at www.pgntgroup.com.

Paragon's revenues were $142 million in 2021, up 32 percent from $108 million in prior year. Our revenue growth in 2021 was primarily derived from our distribution company SEDC in Latin America. Our automation revenues declined year over year, but 2021 was a satisfactory year for SI Systems. Read on to learn more. We would point out that in 2021 while SI Systems revenues were 5% of the size of our distribution business, SI's operating income was 20% the size of SEDC's operating income. In 2020, automation revenues were 11% the size of our distribution revenues, while both businesses earned approximately the same amount of operating income. We provide this comparison to illustrate the earning power of both our operating businesses. While Paragon may earn the bulk of its current revenues from distribution, each of our operating businesses can drive the bottom line.

Paragon's income before income taxes and non-controlling interest increased by 7% to $6.0 million in 2021 compared with a pre-tax income of $5.6 million in 2020. Net income attributable to Paragon was $3.4 million in 2021 versus net income of $3.6 million in 2020. Our profits in 2021 are inclusive of *unrealized losses* of $110,000, while profits in 2020 included unrealized gains of $60,000, respectively, on investment securities in our equity portfolio.

Accounting rules now require companies holding equities, as Paragon does, to report any unrealized gains or losses from those equities on our income statement. The daily volatility in equity price movements mean very little to us, but at the end of each reporting period, Paragon must now report both realized and unrealized investment gains as other income or expense. We believe our portfolio of quality and attractively priced securities will appreciate over time and therefore view the reporting of unrealized gains or losses during any given quarter to be of little utility in evaluating the overall operating performance of Paragon. We encourage shareholders to recognize and understand that market fluctuations will always lead to volatility in reporting unrealized investment results, and to evaluate our operating performance accordingly.

Distribution

On a U.S. dollar basis, our 2021 distribution revenues increased 39% to $135 million compared to $97 million in 2020. Furthermore our 2021 revenues increased 28% over the 2019 year when there was no impact from the pandemic. Net income for our distribution operations in 2021 was $2.9 million, an increase of approximately 190% over both 2020 and 2019 net profit.

It's best I repeat what I said in last year's letter:

Not all distribution companies in Colombia fared as well as SEDC in 2020 because of the global pandemic. Tremendous credit goes to our nearly 200 associates led by our President, Ronell Rivera.

The distribution business is fundamentally a finance business. A distributor's role is simple to define but difficult to execute successfully over the long-term. We purchase, warehouse, sell, and deliver a lot of inventory every day earning a small slice of profit per dollar of sales. Small errors in purchasing, delivery, collections – any part of the distribution process – can have magnifying effects on profitability.

Your distribution team didn't make many errors in 2021. It's hard to quantify the reputation that SEDC has earned with our customers and vendors since Paragon acquired the business in 2017. Our objective has always been and will always be to be the best and not the biggest. I'll let you in on a secret: when you focus on becoming the former, you also start growing into the latter.

In 2019, SEDC ranked as the sixth largest distributor by revenues in Colombia but number three based on net profit. We expected to gain ground in 2020 (we did) but the global economic disruption in that year rendered comparisons meaningless. We believe that at the end of 2021, SEDC was the third or fourth largest distributor by revenues in Colombia and number one or two based profit per dollar. In fact, we believe that SEDC generates more than double the net profit margin per dollar of sales versus our major competitors. Over the past three years our net margins have increased from 1% to 2.1%. This growth is a tremendous achievement and the effort involved in achieving this margin expansion is indicative of our dedicated associates.

To be sure, our 2021 margins were favorably impacted by the low global interest rate environment that we were able to capitalize on. As interest rates increase, some of those advantages will go away but we believe that our margins will continue to be the envy of industry.

As I wrote last year, "We believe our logistical infrastructure sets us apart from many of our competitors and that over time, our operational 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."

Last year, the value of our logistical strength was magnified. Our relationship with our vendors alongside our capital strength resulted in minimal supply chain disruption to our distribution business. Our ability to transact quickly and take advantage of available opportunities ensured that our inventory levels were more than adequate to take care of our customers. Our vendors, knowing the reliability and reputation of SEDC, provided us with opportunities to make purchases that other competitors were incapable or too timid to make. Not us: when everyone else is afraid or uncertain, we rejoice.

Of course, all the above cannot be accomplished by just anyone. Here again, we are, in my biased opinion, the best by far. Earlier this year, I had the privilege of meeting with managers of our key departments. They care about SEDC and guard its reputation zealously. They come in each day determined in doing what is best for SEDC. And it is that type of culture that truly sets us apart.

Automation

I have often remarked that when it comes to real estate, the most important factor is location, location, location. In our automation business, our most important metric is backlog, backlog, backlog.

Our automation revenues declined to $6.8 million in 2021 versus $11 million in 2020, respectively. As noted in last year's letter, SI Systems ended the 2020 year with backlog of $4 million. Many projects that SI was actively pursuing and bidding on were put on indefinite hold as the pandemic took hold of the global economy in March 2020.

The nature of our automation operations involves projects that are completed over many months as they go through the process of being designed, installed, and tested before commercial implementation. When SI Systems is awarded a $1 million project, that $1 million is added to backlog and as each milestone of our project is met, we record the revenue as we complete the phases of the project alongside the continuous transfer of control to the customer over time.

So, backlog therefore becomes a very important gauge in the *future* revenues of the upcoming year and the most important metric we focus on at SI. For example, at the end of 2019, our automation backlog was $7 million and that led to $11 million in revenues the following year, 2020. As previously mentioned, as almost all industries put a halt on major capital projects in 2020, our backlog was significantly impacted. Ending 2020 with a backlog at $4 million, we expected a significant impact to revenues in 2021. We expected the impact, and we were prepared.

While our automation revenues declined 38% in 2021 versus 2020, our gross profit margins remained unchanged at an all-time high. And despite the revenue drop, SI Systems generated a net after tax profit of over $1 million in 2021 compared to $2.3 million in 2020, respectively. Our profit in 2020 included $454,000 that SI received as a PPP loan that was subsequently forgiven and included in net income. Our intense focus on our operational efficiency enabled SI to generate sufficient cash to pay down all its debt obligations – over $750,000. SI now has neither short nor long term debt. Most important of all, our backlog at the end of 2021 was approximately $10 million, a record since present management took over.

In aggregate, we are satisfied with SI's results in 2021. Still, SI was not immune to the aftershocks caused by the pent-up demand resulting from 2020's economic "shutdown." Supply chain management, labor availability, and inflationary cost pressures were all present in our business. Credit goes to our entire automation team which worked closely together across all departments to mitigate the impact of those economic factors.

While our record backlog gives us comfortable visibility with respect to our anticipated results in 2022, in our view 2022 is behind us. Naturally, our aim is to maintain our backlog level at a certain minimum baseline each year but strive to increase that baseline over rolling periods of years.

The nature of automation projects is that they are specialized and, like constructing a warehouse or building a factory, the sales cycle takes time. In some cases, we can begin evaluating a project that is over a year away from becoming an awarded project. Thus, having an active pipeline of quality projects to bid on is critical. We operate in an intensely competitive field with competitors that are orders of magnitude larger than we are in terms of both capital and capability.

Founded in 1958 by Jack Bradt, a Cornell engineering student, SI Systems was one of the preeminent automation companies during the second half of the twentieth century. In 1960, SI had already revolutionized the industry with the development of our in-floor conveyor system. In 1972, SI Handling Systems, as it was then known, was listed on the NASDAQ. By 1999, because of product development innovations and acquisitions, SI Systems was a fully integrated automation system that offered in-floor conveyance systems, warehouse conveyance solutions and a wide array of order fulfillment dispensing solutions to our clients.

In 2000, SI Handling changed its name to Paragon Technologies. Over the next decade, management reversed the approach and began selling off pieces of the business (one notable and unfortunate transaction was the sale of Ermanco, a leading conveyor business that has continued to grow into a dominant supplier of conveyance systems today). What remained was the towline business and the order fulfillment operations. Effectively SI had evolved from a fully integrated automation company to a specialized automation business with two distinct product offerings.

Nevertheless, our products remain just as versatile and reliable today. We continue to generate business from existing clients either through new system expansion or our recurring support services. Additionally, as e-commerce continues to grow and evolve, we have opportunities to expand our customer base as new companies experiencing strong demand look for order fulfillment automation solutions.

SI's business strategy is twofold. First, we are constantly focused on capturing new clients through a more targeted, direct marketing approach. A new client for SI almost always means future repeat business coming from the annual service contracts we provide as well supplying our customers with additional automation as they grow. We are learning that many of our new clients are finding out about our products through outlets such as YouTube and other similar channels. Last year, SI opened a small office in Las Vegas to house our marketing operations as we are seeing many opportunities coming from e-commerce operations located West. Our aim is that overtime if business conditions warrant, we will grow our footprint out west as there is a growing pool of technological and engineering talent in the area.

Second, we continue to implement ways to expand our capabilities through internal product development as well as partnerships with other suppliers of automation technology so that we may broaden our service offerings. As I noted in last year's letter, we continue to aggressively pursue offering value added services that provide more regular revenue streams to go alongside our long lead time projects. These opportunities, including automation consulting and engineering services, help generate higher margin, recurring revenue business to support our backlog.

As we continue to pursue these strategies, we will continue to operate SI with the utmost efficiency and attention to expenses.

We are cautiously optimistic regarding the prospects for SI and our approach to managing the business. What we do for our clients – lower their input costs and increase their order output – are business needs that we believe will never go out of style. I've yet to come across any client that desires higher prices or slower service. More so, our service and material providers are located in our backyard in the US, and we believe over the next several years, our U.S. based "localized" supply chain is going to become more and more advantageous to our business.

Real Estate

Last year our wholly owned subsidiary, Ohana Home Services, LLC ("Ohana"), closed on two additional residential real estate properties in Las Vegas. Our total investment was $1.8 million, of which $1.5 was financed over a staggered period of four years at a zero percent (0%) rate of interest. We believe the terms provided created an opportunistic moment to add to our portfolio.

Our real estate holdings, like any acquisition we make, is a capital allocation decision. Our initial real estate purchases were made because we believed we were getting appropriate value for the price. We were paying approximately $700 per square foot in a building where other units were trading for $1,000 - $1,200 per square foot. Four years later we acquired two additional properties for just under $900 per square foot, but with one key inducement – we financed over 80% of the purchase price over three years from date of acquisition at an interest rate of *zero* percent.

A borrower of capital at fixed rates during periods of rising interest rates ends up repaying the debt with less valuable dollars going to the lender. In our case since we are paying no interest, we effectively can invest our capital today, earn an increasing rate of return over the payment period and make those repayments with same dollars that have grown in value to the us, the debtor, but not the creditor. While inflation reduces the purchasing power of the dollar, attractive real estate assets ultimately provide a strong inflationary hedge: we are confident that in the next three years our real estate assets will be worth far more than the dollars used to acquire them.

Our rental rates have appreciated by as much 20% over the past year and nearly 30% since our first acquisition. We believe Ohana's portfolio currently commands some of the highest rental rates within the property given the quality of our assets and our commitment to delivering exceptional service to our clients. To add further clarification, our property's governing policy only allows traditional long-term residential leases. No short-term weekly or monthly stays are allowed, which we believe adds value to our property. Recent sales activity is showing units of our size trading at approximately $1,050 a square foot.

Our real estate investments were purchased for income and capital appreciation purposes. Ohana continues to lease its real estate to generate positive cash flow for the foreseeable future. We will seek to monetize our real estate holdings at favorable market prices to enable us to deploy the capital elsewhere where we find opportunity for greater long-term return on capital invested.

Our confidence of the long-term future of Las Vegas remains high. Today over 2.3 million residents call the Las Vegas Valley home, up from 200,000 during the 1960's. Researchers at the University of Las Vegas predict that by 2060 the population will increase by another 1 million. A recent report by the Las Vegas based Home Builder Research indicated that nearly 13,000 net home sales – newly signed purchase contracts less cancellations – were recorded in Southern Nevada, the most since 2006. Warehouse construction and leases are also experiencing robust demand. Many of today's leading and promising technology companies are gobbling up land and warehouses in surrounding areas.

Five years ago, professional sports were a dream for Las Vegas. Today, both the NHL and NFL have established roots in Las Vegas, and it is highly probable that by this time next year, Las Vegas will have a Major League Baseball team. Rumors are in the air about the NBA as well. The Super Bowl was awarded to Las Vegas in 2024. Compared to California and Texas, Las Vegas real estate remains a relative bargain and Las Vegas continues to see an influx of migration further enhanced by a lower cost of living, world class dining and entertainment, and the absence of state income tax.

We believe our real estate portfolio will remain a strong inflationary hedge both as an asset and in cash flow generated as we have been able to capture increasing rents that more than offset the current rate of inflation.

Marketable securities

The following chart lists Paragon's key minority investments, as of March 25, 2022:

Security	Cost Basis	Market Value
Common Stock		
300 sh. Alibaba	$54,707	$35,013
2,000 sh. Big Five Sporting Goods	$60,160	$35,850
1000 sh. Intel Corp	$47,843	$51,830
12,787 sh. Exco Resources	$6,655	$89,509
4,492 sh. National Security Group	$53,409	$71,692
6,000 sh. Seritage Growth Properties	$88,020	$76,560

Paragon also holds a very significant position in Rubicon Technology. On February 24, Paragon filed a white paper with the Securities and Exchange Commission outlining a plan for Rubicon that we believe is far superior to any possible outcome at Rubicon. Interested shareholders can access the presentation by visiting the SEC website at www.sec.gov and search for company filings for Rubicon Technology and finding the filing dated February 24, 2022.

Our position in National Security Group, a regional property and casualty insurance company that we have followed for many years recently accepted an all-cash buyout offer that represents an approximately 50% premium to our investment cost. The past several years have been tough for the insurance industry, particularly smaller players like National Security as claims expense has grown due to a fertile storm season. We would have liked National Security to remain standalone as we believe that the company is poised for a strong rebound in normal claims environment.

Our position in EXCO Resources – and the significant "gain" – was the result of an equity for debt swap as a part of a Chapter 11 restructuring plan. In 2017, Paragon acquired $1 million in face value EXCO bonds for 54 cents on the dollar, or a cost of approximately $540,000. Paragon received approximately $90,000 in interest prior to the restructuring plan. Post plan, we were given 21,175 shares of new EXCO and our cost basis was approximately 54 cents. The shares are currently thinly traded but currently trade for approximately $7 per share. Our intent is to monetize the equity position and in 2021 were able to sell approximately half of the position for approximately $6.50 per share.

Paragon's investment objective is to acquire stakes in businesses we determine, after careful analysis, to possess a higher future value than that currently prescribed by the market today. We view our investment holdings 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 Chairman, CEO, and chief capital allocator at Paragon, I am also the Company's largest shareholder with over 90% of my shares purchased directly in the open market. I will benefit alongside our shareholders, not at your expense. I believe this alignment of interests between management and shareholders to be a fundamental tenant of long-term business success.

The Annual Meeting

The 2022 annual meeting of shareholders will take place on **Wednesday, May 18, 2022, at 8:00 AM PST** at the following location:

Waldorf Astoria, Las Vegas
Residential Board Room – Lobby Level
3750 S Las Vegas Blvd
Las Vegas, Nevada 89158

This year again we will provide a telephone dial-in for shareholders wishing to participate virtually and we encourage shareholders to do so. Shareholders who plan to attend our meeting either in person or virtually will both need to contact the company to RSVP, confirm your shareholder status, and if applicable, receive the dial-in information.

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. I truly enjoy talking about Paragon with shareholders and look forward to speaking with all those who can attend.

Sincerely,

Sham Gad

Hesham "Sham" Gad,
Chairman and Chief Executive Officer
April 1, 2022