



**QUARTERLY REPORT
FOR THE PERIOD ENDED
MARCH 31, 2017**

PARAGON TECHNOLOGIES, INC.

101 Larry Holmes Drive, Suite 500
Easton, PA 18042
Telephone: 610-252-3205
Fax: 610-252-3102

I.R.S. Employer Identification No.

22-1643428

CUSIP No.

69912T108

ISSUER'S EQUITY SECURITIES

COMMON STOCK

\$1.00 Par Value

20,000,000 Common Shares Authorized

**1,684,745 Shares Issued and Outstanding
as of the Filing of this Quarterly Report**

PARAGON TECHNOLOGIES, INC.
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For the Period Ended March 31, 2017

1) Name of the Issuer and its predecessors (if any):

The name of the issuer is Paragon Technologies, Inc. ("Paragon" or the "Company").

2) Address of the Issuer's principal executive offices:

Company Headquarters

Paragon Technologies, Inc.
101 Larry Holmes Drive, Suite 500
Easton, PA 18042

Phone: (610) 252-3205
E-Mail: info@pgntgroup.com
Website(s): www.pgntgroup.com

IR Contact

Paragon Technologies, Inc.
101 Larry Holmes Drive, Suite 500
Easton, PA 18042

Phone: (706) 549-7141
E-Mail: ir@pgntgroup.com
Website(s): www.pgntgroup.com

3) Security Information:

Trading Symbol: PGNT
Exact title and class of securities outstanding: Common Stock
CUSIP: 69912T108
Par Value: \$1.00 per share
Total shares authorized: 20,000,000
Total shares outstanding: 1,684,745

Transfer Agent

American Stock Transfer & Trust Company
6201 15th Avenue
Brooklyn, NY 11219
Phone: (718) 921-8206

Is the Transfer Agent registered under the Exchange Act: Yes: No:

List any restrictions on the transfer of security:

None

Describe any trading suspension orders issued by the SEC in the past 12 months:

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.

On October 17, 2016, Ark Investments, LLC, was formed as a wholly-owned subsidiary of Paragon Technologies, Inc. and had no activity during the year ended December 31, 2016. On March 1, 2017, Ark Investments, LLC acquired SED International de Colombia, S.A.S. ("SED Columbia" or "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. There is a noncontrolling interest in SEDC of (twenty) 20 percent owned by El-Gibhor International LLC that will vest over a period of time.

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4) Issuance History:

Not Applicable.

5) Financial Statements:

The financial statements for the three months ended March 31, 2017 are incorporated by reference and can be found at the end of this Quarterly Report. The financial statements as of and for the period ended March 31, 2017 (unaudited) include: (1) consolidated balance sheets, (2) consolidated statements of operations, (3) consolidated statements of comprehensive income (loss), (4) consolidated statements of stockholders' equity, (5) consolidated statements of cash flows, (6) notes to consolidated financial statements.

6) Describe the Issuer's Business, Products, and Services:

A. Description of the issuer's business operations:

Business

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

Our material handling operations are operated through our subsidiary, SI Systems, LLC. SI provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. SI Systems' capabilities include horizontal conveyance and transportation, rapid dispensing and for order fulfillment, automatic document inserting system, a full suite of high performance Warehouse Execution Systems (WES), Warehouse Management Systems (WMS) and Warehouse Control Systems (WCS) software systems and aftermarket services. SI Systems' automated material handling systems are used by manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government.

SI Systems is brought to market as two individual brands, SI Systems' Dispensing and Towline. The Dispensing business focuses on providing order fulfillment systems to distribution operations, including Dispen-SI-matic®, Mobile-Matic® (a patented product), Doc-U-spense™ automatic document inserting system and our full suite of Warehouse Execution Systems, Warehouse Management Systems and Warehouse Control Systems software solutions with our SI-IWS™ product. These systems are sold primarily through a nationwide network of authorized material handling integrators, dealers and direct to major OEM, end users and 3PL accounts. The Towline business focuses on providing automated material handling systems to manufacturing, assembly and distribution operations via our Lo-Tow® Towline horizontal conveyance and transportation technologies. These systems are sold primarily to end users.

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

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6) Describe the Issuer's Business, Products, and Services: (Continued)

Business, (Continued)

Our distribution operations are operated through our subsidiary SED International de Colombia ("SED Columbia" or "SEDC"). SED Columbia is the fourth largest IT distributor in Colombia and the tenth largest information technology company in Colombia. SED Columbia distributes IT hardware products that include PC's, Laptops, Servers, Workstations, Printers, Networking, Storage, Monitors, Projectors and accessories from leading manufacturers such as Hewlett Packard Enterprise, Lenovo, Dell, Asus, Epson and others. SEDC currently has 105 employees, of which more than half are focused on sales, product management and marketing. They serve around 2,500 customers in over 100 cities and municipalities in the country. The customer base is divided between transactional (retail and volume) and commercial (high end and value products).

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, our products are delivered, same day to Bogota and within 24 hours 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.

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.

B. Date and State (or Jurisdiction) of Incorporation:

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.

C. The issuer's primary and secondary SIC Codes:

Primary SIC Code: 3530
Secondary SIC Code: N/A

D. The issuer's fiscal year end date:

The Company's fiscal year end is December 31.

6) Describe the Issuer's Business, Products, and Services: (Continued)

E. Principal products or services, and their markets

SI Systems Branded Products

SI Systems' branded products encompass the horizontal conveyance and transport and order fulfillment families of products.

Horizontal Conveyance and Transport

SI Systems Lo-Tow® towline conveyor systems are utilized in the automation of manufacturing, assembly and unit load handling in the distribution center environments. Because the Lo-Tow® towline chain operates at a minimal depth, systems can be installed in existing one-story and multi-story buildings as well as newly constructed facilities. Industries served include the automotive, vehicle and large machinery manufacturing markets, distribution centers and U.S. government facilities.

Dispensing & Order Fulfillment Systems

Dispen-SI-matic®, Mobile-Matic™, Doc-U-spense™, SI-IWS™

SI Systems dispensing and order fulfillment systems are based on increasing customer profitability by reducing labor and floor space while increasing accuracy levels and the throughput and speed of order fulfillment to meet today's accelerated requirements. Product lines include:

- Dispen-SI-matic® A-Frame workstation system that provides benchmark setting levels for order fulfillment and the largest selection of model types in the industry.
- Mobile-Matic® (patented) mobile A-Frame system provides many of the key benefits of high speed order fulfillment, but in a smaller and scalable capacity.
- Doc-U-spense™ document insertion system which allows pre-printed coupons, instructions and documentation to be automatically added to orders accurately and labor-free. This system's modular construction allows organizations to cost-effectively add capacity and deploy rapidly.
- SI-IWS™ is a comprehensive suite of warehouse software designed to optimize material flow, labor and equipment utilization. The suite is comprised of a Warehouse Control System (WCS), Warehouse Management System (WMS) and Warehouse Execution System (WES) that allow organizations to match size, business model and requirements with the matching application requirements.

Industries served include e-commerce and omni-channel retailers, pharmaceutical, entertainment, vision, nutritional supplements, electronics, health and beauty aids, cosmetics, jewelry and an assortment of other various industries.

Aftermarket Spare Parts, Equipment and Support Service

SI Systems provides spare and replacement parts and equipment for all its products, along with support contract services for its order fulfillment systems. A service group focused on R&R (Rejuvenation & Retrofit) of existing towline systems (regardless of the manufacturer) has been very successful.

SED International de Colombia

SED International de Colombia is a wholesale distributor of IT products in Colombia. We currently distribute products from 14 top worldwide recognized IT manufacturers. Our business is divided in two main business units: Value and Transactional. 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,

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6) Describe the Issuer's Business, Products, and Services: (Continued)

SED International de Colombia (Continued)

Networking and Power Protection Systems as well as services such as Extended Warranties and Maintenance Agreements.

Our Transactional Unit focus on the consumer business (retail resellers) as well as run rate products for Value Added Resellers (VAR'S) selling to Small and Medium Businesses (SMB). Top products distributed by the Transactional unit include Notebooks Computers, Desktop Computers, Printers, TV's, Audio/Visual, Projectors and Accessories.

7) Describe the Issuer's Facilities:

Paragon Technologies, Inc.
101 Larry Holmes Drive, Suite 500
Easton, PA 18042

SI Systems leases a facility located at 101 Larry Holmes Drive in Easton, Pennsylvania. The area covered by the lease is 9,648 square feet. The leasing agreement requires fixed monthly payments of \$13,000 through April 30, 2017 and \$13,500 for the final twelve months through April 30, 2018, when the lease expires.

SI Systems believes that its Easton, Pennsylvania facility is adequate for its current operations. The Company's operations experience fluctuations in workload due to the timing and receipt of new orders and customer job completion requirements. Currently, the Company's facility is adequate to handle these fluctuations. In the event of an unusual demand in workload, the Company supplements its internal operations with outside subcontractors that perform services for the Company in order to complete contractual requirements for its customers. The Company 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.

SEDC leases a 32,000 square foot facility in Chia (Cundinamarca), Colombia. The center, located near Bogotá, the capital city of Colombia, serves as a sales and administrative office and distribution facility for the company. The lease expires in October 2018. The monthly payment is the equivalent of approximately \$15,530.

SEDC also leases office #210 at 14707 South Dixie Highway in Palmetto Bay, Florida for a monthly payment of \$1,323 (the lease expires in March, 2018) and two apartments in Chia for the use of its two members of the management team based out of Miami, Florida for an aggregate monthly payment of the equivalent of approximately \$900 (These leases expire in July 2017 and March 2018).

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8) Officers, Directors, and Control Persons:

A. Names of Officers, Directors, and Control Persons

Information concerning the Company's directors is as follows:

Name, Other Positions or Offices With the Company and Principal Occupation for Past Five Years	Director Since	Age
<p>Hesham M. Gad</p> <p>Hesham M. Gad has been Chief Executive Officer of the Company since June 2014, Chairman of the Company's Board of Directors since March 2012 and a director of the Company since October 2010. From 2013 to 2016 Mr. Gad served as Chairman and CEO of SED International Holdings, a multinational distributor of IT and computing products.</p> <p>Mr. Gad is also the author of the internationally published book, "The Business of Value Investing." Mr. Gad holds a B.A. in finance and an MBA in finance from the University of Georgia.</p>	2010	39
<p>Jack H. Jacobs</p> <p>Jack H. Jacobs has been 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 the past nine years. He has held the McDermott Chair of Politics at West Point since 2005 and has served as an NBC military analyst since 2002. Mr. 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.</p> <p>Mr. 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. From 2007 to 2012, Mr. 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. Mr. Jacobs was previously a director of Premier Exhibitions, Inc., a provider of museum quality touring exhibitions then listed on NASDAQ, and joined the board of directors of DATATRAK International, Inc. (OTC: DTRK), a technology and services company delivering "dClinical" solutions for the clinical trials industry, in January 2016. From October 17, 2013 to October 28, 2013, Mr. Jacobs served on the board of SED International Holdings, Inc. Mr. Jacobs is Co-Chairman of the Medal of Honor Foundation and a member of the Board of Trustees of the USO of New York. Mr. Jacobs is the author of the book "If Not Now, When?: Duty and Sacrifice in America's Time of Need." Mr. Jacobs received a Bachelor of Arts and a Master's degree from Rutgers University.</p>	2012	71

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8) A. Names of Officers, Directors, and Control Persons, (Continued)

Samuel S. Weiser 2012 57

Samuel S. Weiser is currently the President and Chief Executive Officer of Foxdale Management LLC. From August 2009 until April 2015, he was a member of the Board of Directors and from August 2014 until March 2015 was Executive Chairman of Premier Exhibitions, Inc., a provider of museum quality touring exhibitions then listed on NASDAQ. In addition, Mr. Weiser served as President and Chief Executive Officer of Premier Exhibitions from November 2011 until June 2014. Mr. Weiser was a member of SED International's Board of Directors from October of 2013 until October 2014. Previously, Mr. Weiser served as a member and Chief Operating Officer of Sellers Capital LLC, an investment management firm, from 2007 to 2010. From 2005 to 2007, he was a Managing Director responsible for the Hedge Fund Consulting Group within Citigroup Inc.'s Global Prime Brokerage Division. From 2002 to April 2005, he was the President and Chief Executive Officer of Foxdale Management, LLC, a consulting firm founded by Mr. Weiser that provided operational consulting to hedge funds and litigation support services in hedge fund related securities disputes. Mr. Weiser also served as Chairman of the Managed Funds Association, a lobbying organization for the hedge fund industry, from 2001 to 2003 and was formerly a partner in Ernst and Young. He received his B.A. in Economics from Colby College and a M.A. in Accounting from George Washington University.

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

Name	Age	Office
Hesham M. Gad	39	Chief Executive Officer, Paragon Technologies
Deborah R. Mertz	60	Chief Financial Officer, Paragon Technologies

Deborah R. Mertz, is an accounting professional with over 30 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.

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five 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 last five 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 last five 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.

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 last five 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 last five 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.

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C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer’s equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

To the best of the Company’s knowledge, the following table sets forth certain information as of March 31, 2017 (unless otherwise noted) regarding the ownership of common stock by each person known by the Company to be the beneficial owner of more than ten percent (10%) of the outstanding common stock. Unless otherwise stated, the beneficial owners exercise sole voting and/or investment power over their shares.

- (1) The address for the stockholder listed on the table is c/o Paragon Technologies, Inc., 101 Larry Holmes Drive, Suite 500, Easton, Pennsylvania 18042.
- (2) The percentage for each individual, entity or group is based on the aggregate number of shares outstanding as of 3/31/2017.
- (3) Mr. Gad holds 277,422 shares directly and beneficially owns 204,531 shares held by Gad Capital.

Title of Class	Name and Address of Beneficial Owner (1)	Amount and Nature of Beneficial Ownership	Right to Acquire Under Options Exercisable Within 60 Days	Percent of Class (2)
Common Stock, Par Value \$1.00 Per Share	Hesham M. Gad (3)	481,953	-	28.6%

9) Third Party Providers:

Please provide the name, address, telephone number, and e-mail address of each of the following outside providers that advise your company on matters relating to operations, business development, and disclosure:

Legal Counsel:

Thompson Hine LLP
Attention: Derek D. Bork
3900 Key Center
127 Public Square
Cleveland, Ohio 44114-1291
Telephone number: (216) 566-5500
E-mail address: Derek.Bork@thompsonhine.com

Auditor:

RSM US LLP
Attention: Susan Roeder
751 Arbor Way, Suite 200
Blue Bell, PA 19422
Telephone number: (215) 641-8600
E-mail address: Susan.Roeder@rsmus.com

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9) Third Party Providers, (Continued)

Investor Relations Consultant:
None.

Other Advisor:
None.

10) Issuer Certification:

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

I, Hesham M. Gad, President and 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.

May 18, 2017

/s/ Hesham M. Gad
Hesham M. Gad
President and Chief Executive Officer

The issuer shall include certifications by the chief executive officer and chief financial officer of the issuer (or any other persons with different titles, but having the same responsibilities).

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

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10) Issuer Certification, (Continued)

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.

May 18, 2017

/s/ Deborah R. Mertz

Deborah R. Mertz
Chief Financial Officer

**PARAGON TECHNOLOGIES, INC.
and Subsidiaries**

QUARTERLY REPORT

**CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED FOR THE
THREE MONTHS ENDED March 31, 2017**

CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

I N D E X

•Consolidated Financial Statements:	
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PARAGON TECHNOLOGIES, INC.
Consolidated Balance Sheet (Unaudited)
March 31, 2017 and December 31, 2016
(In Thousands, Except Share and Per Share Data)

Assets	March 31, 2017	December 31, 2016
Current assets:		
Cash and cash equivalents	\$ 1,650	\$ 1,733
Trade accounts receivables	7,770	635
Costs and estimated earnings in excess of billings	422	152
Inventories:		
Raw materials	199	77
Work-in-process	2	13
Finished goods	11,075	259
Total inventories	11,276	350
Prepaid expenses and other current assets	4,995	91
Income tax receivable	-	59
Total current assets	26,113	3,020
Marketable securities	1,186	1,652
Machinery, equipment, and software, at cost:		
Machinery and equipment	526	483
Software	616	356
Less: accumulated depreciation	(794)	(763)
Net machinery, equipment, and software	348	76
Other assets - intangible assets, net	667	-
Deferred tax asset	121	-
Total assets	\$ 28,435	\$ 4,748

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.

Consolidated Balance Sheet (Unaudited) (continued)

March 31, 2017 and December 31, 2016

(In Thousands, Except Share and Per Share Data)

	March 31, 2017	December 31, 2016
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 11,615	\$ 560
Billings in excess of costs and estimated earnings	929	498
Accrued salaries, wages, and commissions	284	104
Accrued product warranties	24	67
Unearned support contract revenue	358	268
Income taxes payable	595	-
Accrued other liabilities	1,538	169
Bank loan - line of credit	6,111	275
Total current liabilities	<u>21,454</u>	<u>1,941</u>
Commitments and contingencies (Notes 10 and 11)		
Stockholders' equity:		
Common stock, \$1 par value; authorized 20,000,000 shares; issued and outstanding 1,684,745 shares as of March 31, 2017 and December 31, 2016	1,685	1,685
Additional paid-in capital	3,499	3,499
Retained earnings (accumulated deficit)	1,419	(2,636)
Accumulated other comprehensive income	267	259
Total Paragon Technologies, Inc. and subsidiaries stockholders' equity	<u>6,870</u>	<u>2,807</u>
Noncontrolling Interest	111	-
Total stockholders' equity	<u>6,981</u>	<u>2,807</u>
Total liabilities and stockholders' equity	<u>\$ 28,435</u>	<u>\$ 4,748</u>

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.

Consolidated Statements of Operations (Unaudited)
For the Three Months Ended March 31, 2017 and 2016
(In Thousands, Except Share and Per Share Data)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Net sales	\$ 5,927	\$ 1,785
Cost of sales	5,020	1,185
Gross profit on sales	<u>907</u>	<u>600</u>
Operating expenses:		
Selling, general and administrative expenses	1,318	657
Product development costs	2	3
Total operating expenses	<u>1,320</u>	<u>660</u>
Operating income (loss)	<u>(413)</u>	<u>(60)</u>
Other income (expense)		
Interest income	49	6
Interest expense	(31)	(10)
Gain (loss) on investment, marketable securities	188	(90)
Gain on bargain purchase	4,226	-
Total other income (expense), net	<u>4,432</u>	<u>(94)</u>
Income (loss) before income taxes and non controlling interest	4,019	(154)
Income tax (benefit)	(38)	(62)
Net income (loss) before noncontrolling interest	<u>4,057</u>	<u>(92)</u>
Net income attributable to noncontrolling interest	2	-
Net income (loss) attributable to Paragon Technologies, Inc. and Subsidiaries	<u>\$ 4,055</u>	<u>\$ (92)</u>
Basic and diluted income (loss) per share	<u>\$ 2.41</u>	<u>\$ (0.05)</u>
Weighted average shares outstanding	1,684,745	1,684,745
Dilutive effect of stock options	-	-
Weighted average shares outstanding assuming dilution	<u>1,684,745</u>	<u>1,684,745</u>

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

For the Three Months Ended March 31, 2017 and 2016

(In Thousands, Except Share and Per Share Data)

	Three Months Ended	
	March 31, 2017	March 31, 2016
Net income (loss)	\$ 4,057	\$ (92)
Other comprehensive income (loss):		
Unrealized gain (loss) on marketable securities net of tax of (\$44) in 2017 and \$46 in 2016	(66)	69
Foreign currency translation	74	-
Comprehensive income (loss)	<u>\$ 4,065</u>	<u>\$ (23)</u>

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.

Consolidated Statements of Stockholders' Equity (Unaudited)

For the Three Months Ended March 31, 2017, and the Twelve Months Ended December 31, 2016 and 2015

(In Thousands, Except Share and Per Share Data)

	Common Stock		Additional Paid-Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount					
Balance at January 1, 2015	1,684,745	\$ 1,685	\$ 3,499	\$ (2,400)	\$ 68	\$ -	\$ 2,852
Net income	-	-	-	848	-	-	848
Net change in unrealized gain on marketable securities, net of tax	-	-	-	-	(99)	-	(99)
Balance at December 31, 2015	1,684,745	1,685	3,499	(1,552)	(31)	-	3,601
Net loss	-	-	-	(1,084)	-	-	(1,084)
Net change in unrealized loss on marketable securities, net of tax	-	-	-	-	290	-	290
Balance of Decembe 31, 2016	1,684,745	1,685	3,499	(2,636)	259	-	2,807
Net income	-	-	-	4,055	-	2	4,057
Net change in unrealized gain on marketable securites, net of tax	-	-	-	-	(66)	-	(66)
Restricted stock	-	-	-	-	-	109	109
Foreign currency translation	-	-	-	-	74	-	74
Balance at March 31, 2017	1,684,745	\$ 1,685	\$ 3,499	\$ 1,419	\$ 267	\$ 111	\$ 6,981

See accompanying notes to consolidated financial statements.

PARAGON TECHNOLOGIES, INC.

Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended March 31, 2017, and 2016
(In Thousands)

	March 31, 2017	March 31, 2016
Cash flows from operating activities:		
Net income (loss)	\$ 4,057	\$ (92)
Adjustments to reconcile net income (loss) to net cash provided (used in) operating activities:		
Depreciation of machinery, equipment and software	22	54
Amortization of intangible assets	5	31
Realized (gains) on investments	(188)	90
Stock based compensation	109	-
Gain on bargain purchase	(4,226)	-
Deferred taxes	45	(46)
Change in operating assets and liabilities:		
Trade accounts receivables	1,154	436
Costs and estimated earnings in excess of billings	(270)	119
Inventories	(1,213)	(1)
Prepaid expenses and other current assets	(728)	(73)
Accounts payable	(237)	(343)
Billings in excess of costs and estimated earnings	431	243
Accrued salaries, wages and commissions	180	(143)
Income tax receivable (payable)	(157)	(141)
Accrued product warranties	(43)	(6)
Unearned support contract revenue	90	99
Accrued other liabilities	161	(79)
Net cash provided by (used in) operating activities	<u>(808)</u>	<u>148</u>
Cash flows from investing activities:		
Acquisition of SEDC, less cash acquired	(914)	-
Purchases of machinery, equipment and software	(23)	-
Purchases of investments	(245)	(464)
Proceeds from sale of investments	788	412
Net cash used in investing activities	<u>(394)</u>	<u>(52)</u>
Cash flows from financing activities:		
Borrowings of amounts from bank loan - line of credit, net	1,038	-
Net cash provided by financing activities	<u>1,038</u>	<u>-</u>
Effect of exchange rates on cash	81	-
Increase (decrease) in cash and cash equivalents	(83)	96
Cash and cash equivalents, beginning of year	1,733	1,841
Cash and cash equivalents, end of year	<u>\$ 1,650</u>	<u>\$ 1,937</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest expense	<u>\$ 31</u>	<u>\$ 10</u>
Income taxes	<u>\$ 189</u>	<u>\$ 107</u>
Supplemental disclosures of noncash investing activities:		
Mark to market on available for sale securities, gross	<u>\$ (110)</u>	<u>\$ 116</u>
Supplemental disclosures of noncash operating, investing and financing activities:		
Acquisition of business (note 2)		

See accompanying notes to consolidated financial statements.

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

Description of Business and Concentrations of Credit Risk

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

Our material handling operations are operated through our subsidiary, SI Systems, LLC. SI provides a variety of material handling solutions, including systems, technologies, products, and services for material flow applications. SI Systems' capabilities include horizontal conveyance and transportation, rapid dispensing and for order fulfillment, automatic document inserting system, a full suite of high performance Warehouse Execution Systems (WES), Warehouse Management Systems (WMS) and Warehouse Control Systems (WCS) software systems and aftermarket services. SI Systems' automated material handling systems are used by manufacturing, assembly, order fulfillment, and distribution operations customers located primarily in North America, including the U.S. government.

SI Systems is brought to market as two individual brands, SI Systems' Dispensing and Towline. The Dispensing business focuses on providing order fulfillment systems to distribution operations, including Dispen-SI-matic®, Mobile-Matic® (a patented product), Doc-U-spense™ automatic document inserting system and our full suite of Warehouse Execution Systems, Warehouse Management Systems and Warehouse Control Systems software solutions with our SI-IWS™ product. These systems are sold primarily through a nationwide network of authorized material handling integrators, dealers and direct to major OEM, end users and 3PL accounts. The Towline business focuses on providing automated material handling systems to manufacturing, assembly and distribution operations via our Lo-Tow® Towline horizontal conveyance and transportation technologies. These systems are sold primarily to end users.

Our distribution operations are operated through our subsidiary SED International de Colombia ("SED Colombia" or "SEDC"). SED Colombia is the fourth largest IT distributor in Colombia and the tenth 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 manufacturers such as HP, Hewlett Packard Enterprise, Lenovo, Dell, Asus, Epson and others. SEDC currently has 105 employees, of which more than half are focused on sales, product management and marketing. They serve around 2,500 customers in over 100 cities and municipalities in the country. The customer base is divided between transactional (retail and volume) and commercial (high end and value products).

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, our products are delivered, same day to Bogota and within 24 hours 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.

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

For SI Systems, for the three months ended March 31, 2017, two customers individually accounted for sales of 35.2% and 10.3%. For the three months ended March 31, 2016, two customers individually accounted for sales of 20.8% and 11.1%. No other customers accounted for over 10% of sales.

For SI Systems, as of March 31, 2017, four customers individually owed the Company 19.5%, 16.7%, 10.4% and 10.3% in trade accounts receivables. None of these customers was included in the 2017 sales concentration noted above. As of March 31, 2016, three customers individually owed the Company 27.8%, 24.5% and 13.4% in

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

Description of Business and Concentrations of Credit Risk *(Continued)*

trade accounts receivables. One of these customers was included in the 2016 sales concentration noted above. No other customers owed SI Systems in excess of 10% of trade accounts receivable at March 31, 2017 and 2016. The Company believes that the concentration of credit risk in its trade accounts receivable is substantially mitigated by SI Systems' ongoing credit evaluation process as well as the general creditworthiness of its customer base.

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

For SEDC, no customers accounted for over 10% of sales and no customers owed SEDC in excess of 10% trade accounts receivables as of March 31, 2017.

Operating decisions for our various businesses are made by managers of the business units. Investment decisions and all other capital allocation decisions are made for us and our subsidiaries by our senior management team which is led by Hesham M. Gad, in consultation with Paragon's Board of Directors and subject to Paragon's Investment Management Policy. Mr. Gad is the Chairman and Chief Executive Officer of the Company.

Principles of Consolidation

The consolidated financial statements include the accounts of Paragon Technologies, Inc. and its wholly owned subsidiaries (collectively, the "Company"). All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

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. Management evaluates the collectability of accounts receivable based on a combination of factors. Initially, management estimates an allowance for doubtful accounts as a percentage of accounts receivable based on historical collections experience. This initial estimate is periodically adjusted when management becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy

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

Trade Accounts Receivable and Allowance for Doubtful Accounts *(Continued)*

filing) or as a result of changes in the overall aging of accounts receivable. 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). There was no allowance for doubtful accounts as of March 31, 2017 and 2016.

Inventories

Inventories are valued at the lower of average cost or market. For SI Systems, inventories primarily consist of materials purchased or manufactured for stock. For SEDC, inventories consist of finished goods and are stated at the lower of cost (first-in, first-out method) or market. Certain SEDC vendors allow for either return of goods within a specified period (usually 45 - 90 days) or for credits related to price protection. However, for certain other vendors and inventories, the Company is not protected from the risk of inventory loss. Therefore, in determining the net realizable value of inventories, the Company identifies slow moving or obsolete inventories that (1) are not protected by vendor agreements from risk of loss, and (2) are not eligible for return under various vendor return programs. Based upon these factors, the Company estimates the net realizable value of inventories and records any necessary adjustments as a charge to cost of sales. If inventory return privileges were discontinued in the future, or if vendors were unable to honor the provisions of certain contracts which protect SEDC from inventory losses, including price protections, the risk of loss associated with obsolete, slow moving or impaired inventories would increase.

Marketable Securities

The Company's marketable 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 are reported as increases or decreases in other comprehensive income (loss). Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings.

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

The Company has not recognized any other-than-temporary impairment losses for the three months ended March 31, 2017 and 2016.

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

Marketable Securities *(Continued)*

The amortized cost and approximate fair value of marketable securities available-for-sale as of March 31, 2017 and 2016 and December 31, 2016 are summarized as follows *(in thousands)*:

	Equity Securities			Fair Value
	Amortized Costs	Gross Unrealized Gains	Gross Unrealized Losses	
March 31, 2017.....	\$ 874	\$ 335	\$ 23	\$ 1,186
December 31, 2016.....	1,248	565	161	1,652
March 31, 2016.....	704	254	200	758

At March 31, 2017, the Company had four equity securities in an unrealized loss position for less than thirty months. The decline in fair value is not due to credit losses. The Company does not intend to sell these securities prior to recovery and it is more likely than not that the Company will not be required to sell these securities prior to recovery and, therefore, no securities are deemed to be other-than-temporarily impaired. Fair value accounting guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

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

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

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.

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

Marketable Securities *(Continued)*

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at March 31, 2017 and 2016 and December 31, 2016 are as follows *(in thousands)*:

	Equity Securities			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of March 31, 2017.....	\$ 1,186	\$ 1,186	\$ -	\$ -
As of December 31, 2016.....	1,652	1,652	-	-
As of March 31, 2016.....	758	758	-	-

Equity Method Investment

As of March 31, 2017 and 2016, the Company had 1,430,860 shares in SED International Holdings, Inc. (SED), representing 27.6% of the outstanding share capital of SED. At December 31, 2012, SED was traded on the NYSE MKT, and the Company accounted for its shares in SED as a marketable equity security. Effective on or about November 26, 2013, SED voluntarily delisted its common stock from the NYSE MKT and began trading on the OTC markets under ticker symbol SEDN, which is not considered an active market as defined by ASC 320, Investments – Debt and Equity Securities. As a result, the Company adopted the equity method of accounting for its investment in SED. Under this method, the Company's equity in the earnings or losses of the investee is reported currently in the Company's earnings. Upon adoption, the investment, results of operations, and retained earnings were adjusted retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods in which the Investment was held. SED's last available published financial statement is for the period ending June 30, 2014. No further quarterly reports are publicly available. The latest closing price of SED as reported by the OTC Markets is \$0.00001 as of March 31, 2017.

As of March 31, 2017, the carrying value of the SED investment was \$0. There was no investment activity for SED in 2017 and 2016. On September 13, 2016, the pending involuntary Chapter 7 bankruptcy case against SED International Holdings, Inc. was converted to a voluntary Chapter 11 proceeding by order of the court upon consent of SED.

Fixed Assets

Machinery, equipment and software are recorded at cost and are depreciated on the straight-line method over the estimated useful lives of individual assets. The Company capitalizes costs incurred to develop commercial software products or enhancements to software products where such enhancement extends the life of the products. The ranges of lives used in determining depreciation rates for machinery and equipment and software is generally 3 - 7 years. 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.

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

(1) Description of Business and Concentrations of Credit Risk *(Continued)*

Intangible Assets

Intangible assets in 2016 consisted of a trade name and technology, which were being amortized over 6 years. The intangible assets were written off during the fourth quarter of 2016 as noted above in fixed assets.

As a result of the acquisition of SEDC in 2017, intangible assets were recognized at fair value. The detail of the intangible assets and the related amortization and write-off are shown in Note 6 to the consolidated financial statements.

Impairment of Long Lived Assets

The Company reviews the recovery of the net book value of long-lived assets whenever events and circumstances indicate that the net book value of an asset may not be recoverable. In cases where undiscounted expected future cash flows are less than the net book value, an impairment loss is recognized equal to an amount by which the net book value exceeds the fair value of assets. There were no impairments noted in 2017 or 2016.

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. Realized foreign currency transaction gains and losses are included in the accompanying consolidated statements of operations.

Revenue and Cost Recognition

For SI Systems revenues on fixed price systems contracts are recorded on the basis of the Company's estimates of the percentage of completion of individual contracts. Revenue and gross profit is recognized on the basis of the ratio of aggregate costs incurred to date to the most recent estimate of total costs. As contracts may extend over one or more years, revisions in cost and profit estimates during the course of the work are reflected in the accounting periods in which the facts requiring revisions become known. At the time a loss on a contract becomes known, the entire amount of the estimated ultimate loss is accrued.

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. Changes in job performance, job conditions, and estimated profitability may result in revisions to costs and income, which are recognized in the period in which the revisions are determined.

The asset, "Costs and estimated earnings in excess of billings," represents revenues recognized in excess of amounts billed on uncompleted contracts. The liability, "Billings in excess of costs and estimated earnings," represents billings in excess of revenues recognized on uncompleted contracts.

Revenues on other sales of parts or equipment are recognized when title transfers pursuant to shipping terms. There are no installation or customer acceptance aspects of these sales.

Revenue on individual support contracts is recognized on a straight-line basis over the one-year term of each individual support contract.

For SEDC, revenue is recognized once four criteria are met: (1) SEDC must have persuasive evidence that an arrangement exists; (2) delivery must occur, which generally happens at the point of shipment (this includes the transfer of both title and risk of loss, provided that no significant obligations remain which is usually the case); (3) the price must be fixed or determinable; and (4) collectability must be reasonably assured. Shipping revenue is included in net sales while the related costs, including shipping and handling costs, are included in the cost of sales.

(1) Description of Business and Concentrations of Credit Risk *(Continued)*

Unearned Support Contract Revenue

The Company offers its Order Fulfillment customers one-year support contracts for an annual service fee. The support contracts cover a customer's single distribution center or warehouse where the Company's products are installed. As part of its support contracts, the Company 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.

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

Product Development Costs

The Company expenses product development costs as incurred.

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. The Company 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 March 31
2017.....	\$ 67	\$ (43)	\$ 0	\$ 24
2016.....	\$ 112	\$ 5	\$ 19	\$ 136

There is no warranty accrual for SEDC since the warranty obligation is with the manufacturer.

Income Taxes

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

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

The Company 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 2013.

(1) Description of Business and Concentrations of Credit Risk *(Continued)*

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 months ended March 31, 2017 and 2016 are based on the weighted average number of shares outstanding

(2) Acquisition Information

SED Colombia International de Colombia S.A.S.

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

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 early in 2016. The U.S. Bankruptcy Court approved bidding procedures related to the sale of SEDC in December of 2016 and then approved the purchase of SEDC by Ark Investments, LLC in February, 2017. The SEDC acquisition resulted in a bargain purchase and a gain was recorded in other income of \$4,226,089.

Intangible assets of \$672,229 were recognized at fair value and are composed of Trade Name of \$536,690 and Customer Relations of \$135,539.

The purchase price allocation is preliminary and is subject to finalization of beginning tax amounts. The preliminary allocated fair value of assets acquired and liabilities assumed is summarized as follows *(in thousands)*:

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

PARAGON TECHNOLOGIES, INC.
Notes To Consolidated Financial Statements

(2) Acquisition Information (Continued)

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

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 \$29,000 and are included in selling, general and administrative expenses on the consolidated statement of operations for the three months ended March 31, 2017.

(3) Segment Information

Segment information as of March 31, 2017 is as follows (in thousands):

Three Months Ended March 31, 2017	United States	Latin America	Eliminations	Consolidated
Net Sales to unaffiliated customers	\$ 1,374	\$ 4,553	\$ -	\$ 5,927
Gross Profit	\$ 350	\$ 557	\$ -	\$ 907
Operating income (loss)	\$ (472)	\$ 59	\$ -	\$ (413)
Foreign Currency transaction gain (loss)	\$ -	\$ 19	\$ -	\$ 19
Interest expense, net	\$ 8	\$ 23	\$ -	\$ 31
Income tax expense	\$ (58)	\$ 20	\$ -	\$ (38)
Net income (loss)	\$ 4,038	\$ 19	\$ -	\$ 4,057
Total assets at March 31, 2017	\$ 5,330	\$ 23,105	\$ -	\$ 28,435

(4) Line of Credit and Revolving Credit

During 2017 and 2016, the Company had a \$750,000 line of credit facility with its principal bank to be used primarily for working capital purposes. The line of credit facility contains various non-financial covenants and is secured by all of the Company's trade accounts receivables and inventories. The availability on the line of credit was \$430,000 as of March 31, 2017. Interest on the line of credit facility is based on the "Wall Street Journal Prime Rate. The outstanding borrowings were \$320,000 and \$0 as of March 31, 2017 and 2016, respectively.

During 2017 and 2016, the Company had a \$945,000 line of credit facility with its marketable securities broker to be used primarily for general business purposes. The line of credit facility is secured by the available securities in the account. The availability on the line of credit was approximately \$230,000 as of March 31, 2017. Interest on the line of credit facility is based on the one (1) month Libor rate plus 225 bps. The outstanding borrowings were \$715,000 and \$0 as of March 31, 2017 and 2016, respectively.

During 2017, the Company had a \$1,500,000 line of credit facility with its principal bank to be used primarily for working capital needs associated with large long term contracts. The line of credit facility contains various nonfinancial covenants and is secured by all inventory, equipment and trade accounts receivable. The availability on the line of credit was \$1,500,000 as of March 31, 2017. There were no outstanding borrowings as of March 31, 2017.

SEDC currently maintains working capital lines of credit at two local banks, Banco Davivienda and Bancoomeva. Each line of credit is short term and maximum availability on each are 0.89 billion and 2.0 billion Colombian pesos, respectively, which at March 31, 2017 is approximately \$0.3 million and \$0.7 million in U.S. dollars, or approximately \$1.0 million U.S. dollars in the aggregate. At March 31, 2017, there was no additional borrowing availability in both credit lines and SEDC determined that it was in compliance with the credit facility agreements. Interest rate on the lines of credit facilities is based on locally published market reference rates. The Banco Davivienda facility rate is based on IBR (Indicador Bancario de Referencia) plus 4.6%. The Bancoomeva facility rate is based on the DTF (Depositos a Termino Fijo) plus 7 points. The outstanding borrowings were \$1,003,000 as of March 31, 2017.

SEDC has revolving credit arrangements with three local banks, Banco de Occidente, Bancolombia and BBVA for factoring accounts payable from HP Inc. and Epson. The factoring arrangements allow for 74 to 77 days payment terms at 0% interest rate for up to \$4,166,000 in total. If the 74 to 77 days are exceeded, interest will be

PARAGON TECHNOLOGIES, INC.
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charged at the prevailing market rate for the excess period. The outstanding borrowings were \$4,073,000 as of March 31, 2017.

(5) Uncompleted Contracts

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

	March 31, 2017	December 31, 2016
Costs and estimated earnings on uncompleted contracts	\$ 5,190	\$ 4,597
Less: billings to date.....	(5,697)	(4,943)
	<u>\$ (507)</u>	<u>\$ (346)</u>
Included in accompanying balance sheets under the following captions:		
Costs and estimated earnings in excess of billings	\$ 422	\$ 152
Billings in excess of costs and estimated earnings.....	(929)	(498)
	<u>\$ (507)</u>	<u>\$ (346)</u>

(6) Intangible Assets

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

March 31, 2017				
	Gross Carrying Amount	Accumulated Amortization	Write Off of VWare Software	Net Book Value
Trade name.....	\$ 537	\$ 5	\$ -	\$ 532
Customer Relations	135	1	-	134
	<u>\$ 672</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 666</u>
December 31, 2016				
	Gross Carrying Amount	Accumulated Amortization	Write Off of VWare Software	Net Book Value
VWARE™ software.....	\$ 761	\$ 164	\$ 597	\$ -
Trade name.....	160	34	126	-
	<u>\$ 921</u>	<u>\$ 198</u>	<u>\$ 723</u>	<u>\$ -</u>
March 31, 2016				
	Gross Carrying Amount	Accumulated Amortization	Write Off of VWare Software	Net Book Value
VWARE™ software.....	\$ 761	\$ 147	\$ -	\$ 614
Trade name.....	160	31	-	129
	<u>\$ 921</u>	<u>\$ 178</u>	<u>\$ -</u>	<u>\$ 743</u>

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

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(6) Intangible Assets *(Continued)*

Intangible assets of trade name and customer relations resulted from the fair value accounting for the SEDC acquisition in the amounts of \$536,690 and \$135,539, respectively.

(7) Stock Options and Non-vested Stock

2012 Equity Incentive Plan

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

During the three months ended March 31, 2017 and 2016, there were no stock options granted under the plan and there was no stock-based compensation expense recognized.

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

Restricted Stock – Non-controlling Interest

There is an agreement to grant a (twenty) 20 percent noncontrolling interest in SEDC to an employee that has a vesting schedule through December 31, 2018. As of March 31, 2017, the noncontrolling interest is vested at (ten) 10 percent. The acquisition date fair value of the noncontrolling interest was \$209,250. Compensation expense of \$104,625 was recorded as of March 1, 2017 and the remaining compensation will be recognized on a straight-line basis monthly through December 31, 2018. The fair value of the noncontrolling interest (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 three months ended March 31, 2017 was \$109,381.

Directors' Fees Paid

For 2016, Mr. Gad was paid \$150,000 in cash and the other directors were paid \$36,000 in cash in four equal quarterly installments in advance.

For 2017, Mr. Gad and the other directors are expected be paid the same fees as stated above for 2016.

Chairman's Compensation

For 2016, Mr. Gad was paid \$150,000 in cash in four equal quarterly installments.

For 2017, Mr. Gad is expected to be paid the same as in 2016.

(8) Employee Benefit Plans

The Company has a defined contribution Retirement Savings Plan for its U.S. employees. Employees age 21 and above are eligible to participate in the Plan. Effective March 30, 2009, Company contributions under the Company's Retirement Savings Plan were suspended for an indefinite period of time as part of a cost-reduction initiative. Effective August 14, 2015, Company contributions have been reinstated. The matching contribution for the three months March 31, 2017, and 2016 was \$7,812 and \$14,368, respectively. The Plan also contains provisions for profit sharing contributions in the form of cash as determined annually by the Company's Board of Directors. The profit sharing contribution for the three months ended March 31, 2017 and 2016 was \$0, and \$0, respectively. Total expense for the Retirement Savings Plan, including Plan expenses, was \$7,182, and \$14,868 for the three months ended March 31, 2017, and 2016, respectively.

(9) Income Taxes

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

		For the Three Months Ended March 31, 2017	For the Three Months Ended March 31, 2016
Federal:	current	\$ (48)	\$ (52)
	deferred	-	-
		<u>(48)</u>	<u>(52)</u>
State:	current	\$ (10)	\$ (10)
	deferred	-	-
		<u>(10)</u>	<u>(10)</u>
Foreign	current	\$ 20	\$ -
	deferred	-	-
		<u>\$ (38)</u>	<u>\$ (62)</u>

The Company had federal net operating losses of approximately \$244 (in thousands) at December 31, 2016, expiring through 2036. The Company had state net operating losses of approximately \$2,954 (in thousands) at December 31, 2016, 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 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, 2016 and 2015. for SI Systems. There is a deferred tax asset of \$131 (in thousands) on SEDC, as of March 31, 2017.

(10) Contingencies

From time to time, the Company is involved in various claims and legal actions arising in the ordinary course of business. On March 27, 2017, John A. Harrell filed a complaint against the Company's wholly-owned subsidiary, SI Systems, LLC, in the U.S. District Court for the District of Delaware. SI Systems acquired the stock of Innovative Automation, Inc. from Harrell pursuant to a Stock Purchase Agreement dated April 15, 2013, and Harrell was employed by SI Systems pursuant to an Employment Agreement dated April 15, 2013 until he was terminated by SI Systems on June 7, 2016. Harrell's complaint alleges that he is owed unpaid earn-out payments from SI Systems under the Stock Purchase Agreement, that he is entitled to the return of the VWare software and associated materials through a non-exclusive royalty-free license allowing Harrell to use and sell the software, and that SI Systems is required to pay his legal fees.

Due to the nominal future expected revenue derived from the VWare software acquired as part of the IA acquisition, the intangible assets and fixed assets associated with the acquisition were written off by the Company during the year ended December 31, 2016.

The Company intends to defend Harrell's claims vigorously, and intends to assert counterclaims against Harrell for the full refund of all amounts paid to Harrell to date in connection with the Stock Purchase Agreement and Employment Agreement.

(11) Commitments

SI Systems leases a facility located at 101 Larry Holmes Drive in Easton, Pennsylvania. The area covered by the lease is 9,648 square feet. The leasing agreement requires fixed monthly payments of \$13,000 through April 30, 2017, and \$13,500 for the final twelve months through April 30, 2018 when the lease expires. Total rental expense for the three months ended March 31, 2017, and 2016 approximated \$52,238, and \$52,347, respectively.

SEDC leases a 32,000 square foot facility in Chia (Cundinamarca), Colombia. The center, located near Bogotá, the capital city of Colombia, serves as a sales and administrative office and distribution facility for the company. The lease expires in October 2018. The monthly payment is the equivalent of approximately \$15,530.

SEDC also leases office #210 at 14707 South Dixie Highway in Palmetto Bay, Florida for a monthly payment of \$1,323 (with the lease expiring in March, 2018) and two apartments in Chia for the use of its two members of the management team based out of Miami, Florida for an aggregate monthly payment of the equivalent of approximately \$900. (These leases expire in July 2017 and March 2018).

Future minimum rental commitments at March 31, 2017 are as follows (in thousands):

	Operating Leases		
	SI Systems	SEDC	Total
2017	\$ 121	113	\$ 234
2018	54	111	165
Total	\$ 175	224	\$ 399

(12) Stock Repurchase Program

On May 14, 2015, the Company's board of directors approved a program to repurchase up to \$250,000 of its outstanding stock. There were no stock repurchases during the three months ended March 31, 2017.

(13) Recently Issued Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (FASB) issued ASU 2016-15, *Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*. This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this update are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted. The Company is currently reviewing the adoption of ASU No. 2016-15 on the Company's consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation - Stock Compensation*. ASU 2016-09 was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. ASU 2016-09 covers accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for the Company as of January 1, 2017. The Company adopted ASU No. 2016-09 in 2017 with no material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in the ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently evaluating the impact of our pending adoption of the new standard on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10)*. 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. In addition, the standard clarifies guidance

(13) Recently Issued Accounting Pronouncements *(Continued)*

related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The standard is effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently evaluating the impact of our pending adoption of the new standard on its consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes*, which amends existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. The Company is required to adopt this ASU no later than January 1, 2018, with early adoption permitted and the guidance may be applied either prospectively or retrospectively. The Company's adoption of ASU No. 2015-17 is not expected to have a material impact on the Company's consolidated financial statements.

In September 2015, FASB issued Accounting Standard Update (ASU) 2015-16, *Business Combinations (topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. ASU 2015-16 eliminates the requirement that an acquirer in a business combination account for measurement period adjustments retrospectively. Instead, an acquirer will recognize a measurement-period adjustment during the period in which it determines the amount of the adjustment. ASU 2015-16 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company adopted in 2016 and will apply to future acquisitions where applicable.

In July 2015, the FASB issued ASU 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in the ASU require entities that measure inventory using the first in, first-out or average cost methods to measure inventory at the lower of cost and net realizable value. Net realizable value is defined as estimated selling price in the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. ASU 2015-11 is effective for financial statements issued for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 on a prospective basis. The Company adopted ASU 2015-11 in 2017 with no material effect on the Company's consolidated financial statements.

In August 2014, FASB issued Accounting Standard Update (ASU) 2014-15, *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*. ASU 2014-15 explicitly requires management to evaluate, at each annual reporting period, whether there are conditions or events that exist which raise substantial doubt about an entity's ability to continue as going concern and to provide related disclosures. ASU 2014-15 is effective for annual periods ending after December 15, 2016, with early adoption permitted. The Company adopted in 2016 with no material effect on the Company's consolidated financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard were to be effective for interim and annual reporting periods beginning after December 15, 2016. However, in August 2015, the FASB issued ASU 2015-14, which defers the effective date of ASU 2014- 09 one year, making it effective for annual reporting periods beginning after December 31, 2017, including interim reporting periods within that reporting period. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on the consolidated financial statements.

(14) Subsequent Events

Events and transactions for items that should potentially be recognized or disclosed in these financial statements occurring subsequent to the balance sheet date of March 31, 2017 have been evaluated through May 18, 2017, the date which these financial statements were available to be issued.