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

Paragon's per share book value decreased by approximately 12% in 2014, to $1.69 per share, compared with $1.92 per share in 2013. Shareholder's equity equated to $2.85 million at year end 2014 compared with $3.23 million at the end of 2013 primarily as a result of Paragon reporting a net loss of approximately $431,000 for 2014.

Paragon experienced various changes in 2014 that would lead many to call 2014 a transition year, a word often used by business leaders to justify the events that take place when unexpected things happen in business. At Paragon, we view change warranted when it is in the best interest of our businesses and our shareholders, regardless to time and frequency. To be clear, we don't *prefer* a lot of change but we won't ever make or delay decisions based on a need to satisfy short-term results. If change is needed for the long-term benefit of Paragon or our affiliated businesses, we will act without delay.

We believe the changes we made in 2014 at both the corporate and subsidiary level set forth the blueprint for Paragon's modus operandi going forward. At the corporate level, I assumed the role of CEO of Paragon in addition to my role as Chairman. As a holding company, Paragon is now better equipped to support the growth of its wholly owned subsidiary, SI Systems, as well as any future subsidiaries or affiliated companies. My role and responsibility at Paragon is clearly defined: to allocate the company's capital, promote and preserve the company's culture, and to ensure that our businesses have excellent management teams who embody Paragon's culture of being laser focused on long-term shareholder value. Paragon then gives those managers the requisite autonomy to run their respective businesses and grow them. In turn, the holding company can provide the backstop support as needed.

2014 Year in Review

Paragon reported a net loss of $431,000 for the full year 2014 compared with a net loss of $1.8 million in 2013, respectively. In 2013, net income was impacted by a $3 million write down of Paragon's equity investment in SED International Holdings. Revenues declined to $6.7 million in 2014 from $11.6 million in 2013. Operating expenses were $2.2 million for the year compared with $2.5 million in 2013. Shares outstanding remained unchanged at 1,684,745.

Paragon Technologies is a holding company that today consists of three primary components: wholly owned subsidiaries, businesses in which we have a significant investment, and minority owned investments. Currently, Paragon has one wholly owned subsidiary, SI Systems, LLC ("SI"). The second part consists of our businesses in which Paragon may be deemed to own a significant interest enabling us to exercise a certain degree of control. Today, Paragon has one such investment in SED International Holdings. The third part consists of our minority owned investment holdings.

Looking at each component individually should help shareholders understand the business collectively, and why as a whole Paragon is a far stronger company than the individual pieces.

SI Systems

SI Systems, our wholly owned material handling subsidiary, went through a management change in 2014 that led to the hiring of John Molloy as CEO and Deborah Mertz as CFO. To stakeholders on the outside looking in, such a sweeping change would warrant concern or questions especially after SI earned nearly $1 million in operating profits in the prior year. Why after such a strong 2013 would we replace management?

The answer is that we simply don't measure success via a 12 month window. Because we believe that SI Systems is a strong business with a high quality reputation in the industry, we wanted a management team that could build a successful company over a period of years, not months. Realizing that the past management team did not embody this long-term oriented culture, we acted swiftly and decisively to do what was best for SI.

SI Systems has been providing material handling solutions and systems for nearly 60 years. In last year's letter, I made reference to SI's Production and Assembly division, or PAS, as representing the "old" side of material handling business. While today's material handling needs may be shifting towards a more mobile and software based foundation, our legacy material handling business continues to show resiliency. While the size of PAS market may have declined over the past half century, the number of competitors has declined at a far faster rate. A smaller pie that today has far fewer folks at the table means more slices for those remaining. As long as this condition persists – and we have reason to believe it does – we will capitalize on SI's brand and reputation to gobble more slices in this segment of our business.

The PAS business focuses on providing automated material handling systems to manufacturer assembly lines and distribution center operations via our branded towline conveyance and transportation technologies. These systems are sold primarily to end users, who then typically rely on SI for future enhancements, additions, or repairs to the system. As such, customer relationships tend to be very cooperative and long-lasting. Over the past few years, we have started to see greater market potential and expansion for this segment of our business. The overall installed base of existing PAS and Tow Line continues to age and that has increased the availability of replacement and enhancement projects. The continued migration of manufacturing onshore to the U.S. creates further demand for our material handling solutions as more and more businesses turn to automation eliminate headcount.

Our Order Fulfillment Systems (OFS) business provides order fulfillment systems and solutions to customers via our suite of branded and patented products including Dispen-SI-matic and Mobile-matic and our software solutions via our VWare technologies. Our OFS capabilities are marketed and sold directly to material handling system integrators as well as directly to major OEM's. We are seeing significant demand opportunity in order fulfillment as a result of the continued growth in e-commerce as well as specific areas such as prescription fulfillment and health

& beauty. The uncompromising need for timely and precise product fulfillment appears to be a long-lasting tailwind favoring fulfillment solutions providers.

SI's installed base of over 200 customers - including some of the nation's top retailers and industrial giants – we believe, is an undervalued and underutilized asset. Heading into 2014, we realized that this customer base had gone largely ignored by prior management.

As we move SI into 2015 and beyond, our focus remains unchanged. First, we will continue to exploit the abundance of opportunities that SI's existing customer base can provide our core material handlings operations. Given our current size, this installed base alone provides a fertile sea of fish from which we can prosper for the foreseeable future.

Second, we will continue to increase and invest in our sales and marketing efforts. SI's updated website, www.sihs.com, is a great look into the true capabilities of SI Systems. In 2014, our Mobile-Matic dispensing solution was nominated for the 2015 Material Handling Industry Innovation Award. Despite taking First Runner Up honors, the recognition confirms that SI's product capabilities still remain a key part of today's evolving material handling industry. SI will continue to invest intelligently in its sales and marketing efforts as a cornerstone of our future growth.

Third, we will invest in our material handling products and solutions in order to enhance our capabilities in becoming a highly versatile partner to our customers. We are acutely aware that the material handling and logistical needs of our customers is a strategic component of their business success and we intend to broaden SI's capabilities to support today's more specialized logistical needs.

SI is truly one of the more versatile material handling solutions providers out there. Whether it's an in-floor installed towline conveyor system or a highly customized software solution, our capabilities reach wide. Whether it's supporting a Fortune 100 company with its material handling needs or providing a small business with its fulfillment infrastructure, SI can deliver. And we can deliver here and abroad as SI's technologies can be found in Canada, Latin America, Asia and Europe.

Despite the decline in revenues in 2014, SI remains a cornerstone business of Paragon. As Paragon will likely come to own other businesses in the future in no way will that expansion be any indication of a diminished focus or commitment to SI. In fact, the exact opposite is true. As the parent company, Paragon will indeed behave like a parent in which all children are loved equally, but perhaps differently. As the Paragon family gets bigger, our responsibilities get stronger and our commitment never wavers.

Given the disappointing year SI had in 2014, it's important that shareholders understand how to properly evaluate our material handling business. Like all other major businesses that perform project type work via contract, a key barometer of our future business health is backlog. Backlog represents the level of future business that SI has contractually committed to performing in the future, which we generally define as the next 12 months. Given that many of SI's projects are completed over the course of several months and in some instances a year or more, backlog is a meaningful leading indicator. In addition to its contract work, SI performs aftermarket services that are typically performed when booked and are not part of backlog. Typically, 20% or more of our annual revenue can be derived from sources such as aftermarket support and services.

Heading into 2014, SI's backlog was $3.4 million and the minimal efforts taken at the beginning of the year to seek out and win new business was a primary reason for the revenue decline in 2014. With SI's new management coming on board in the middle of 2014, any new future backlog was likely going to be a part of future years. We ended 2014 with backlog approaching $4 million and as of March 31, 2015, SI's backlog was nearing $6 million. Perhaps even more encouraging to us is the volume of business that we are capable of bidding on – approximately $30 million today – which suggests a rather fertile sea of opportunity for SI.

Despite an operating loss in 2014, SI was able to end the year debt free, a testament to the financial discipline espoused by our management team as well as the over health of our business. During the year, SI took advantage of its low cost of capital to support our operations, but it's in our DNA to always operate with a sound balance sheet. Because we often collect upfront revenue before even starting a project, SI almost always has sufficient capital to fund its operations without relying on external sources and to the extent SI employs leverage, it will do so in a manner consistent with our conservative approach. In SI's 50 year plus history, our customers and partners have never had to harbor any concern about our creditworthiness nor our ability to complete our projects in a timely and efficient manner. Going forward, that stability should never change as SI benefits from the double advantage of having its own financial strength as well the support of Paragon if ever needed.

Our objective is to continue to capitalize on the inherent advantages our PAS business offers, leveraging our current customers and existing installed base while using the SI brand to seek new customers or bigger portions of existing contracts. The OFS business – by far the largest growing sector in the material handling market – complements our PAS business by giving SI the platform to continually be a value added material handling partner to our customers and system integrators. SI will be able to offer our potential customers complete packages consisting of both hardware and software solutions, creating a more versatile and consistent product.

SI's management team is tirelessly committed to the success and growth of our material handling operations. In addition, our approach also places a halo around sound capital allocation, a one-two punch that we believe makes our businesses more reliable long-term partners for our customers.

SED International Holdings, Inc. ("SED")

Paragon owns approximately 28% of SED International Holdings so it's therefore appropriate to discuss this investment separately. SED International Holdings is a multi-national distributor of computing and IT products. SED's two divisions comprise of SED International, representing our U.S operations, and SED Latin America, representing our business in Colombia. Two thousand fourteen was a year of repairing and rebuilding at SED. A good summary of those efforts are discussed in the recent letter to SED stakeholders which was released on March 5, 2015 and can be found on SED's new website, www.sedintl.com under the Investor tab. SED's fiscal 2014 annual report for the year ended June 30, 2014 can also be found there.

SED's biggest challenge entering 2014 was the legacy liabilities that our U.S. business incurred due to a series of very poor capital allocation decisions by prior management. Throughout 2014, we continued to work aggressively to correct those past issues as well as continue to rebuild SED by leveraging its strengths and eliminating its weaknesses.

For a typical distributor of technology products, scale is the name of the game. Low single digit gross margins require a significant revenue base to absorb the fixed costs. The top four IT distribution companies in the U.S. each generate in excess of $10 billion in revenues per year, with the largest player generating nearly $50 billion in annual revenues. More so, the distribution landscape has changed immensely over the past ten years as the major players have worked aggressively to protect and grow their market share. In the U.S., there still remain numerous IT related distribution companies, many of whom are doing very well with annual sales of less than $100 million, but over time I suspect mergers and acquisitions will create scale for some, while others will have to become more specialized in order to stay competitive and not get priced out of the market.

In our view, a successful distribution enterprise requires an uncompromising commitment to efficiency and cost control, perhaps more so than most other businesses. On $100 million in annual sales, where typical net margins are 0.5% to 1%, a 50 basis point reduction in expenses equates to a 50% to 100% increase in profit. The knife cuts both ways and those distributors with scale are gladly willing to accept lower margins knowing that lower margins industry wide can yield a deep and often fatal cut to smaller distributors.

The current state of SED today is that we have two unique businesses, one in the U.S. and our Latin American distribution business located in Chia, Colombia. Our efforts in the U.S. will be squarely focused on being a specialized, niche provider of IT products to our customers. While SED International will initially become smaller our aim is operational profitability.

In Latin America, SED Colombia has scale and is currently the number four distribution company in the country based on revenue. However, as can be learned from our experience in the U.S., maintaining a leading role as an IT and computer distributor demands a relentless commitment to operational efficiency and intelligent capital allocation. We see room for significant improvement at SED Colombia; indeed that improvement is a necessity if SED Colombia is to maintain and expand its position as a leading distributor in Colombia. In IT distribution, change happens very quickly; today's leader can be tomorrow's laggard if focus is lost for even a second. We plan to devote substantial effort into leveraging the scale we have there in growing our market share, expanding our distribution offerings, and widening our market depth.

A high volume distribution facility such our operation in Colombia, requires reliable and capable order fulfillment and logistics solutions. Perhaps unknown to most is that SI Systems has done some major material handling projects inside Latin America. In fact one major project for SI was located less than one hour from SED Colombia's headquarters. While no immediate plans exist, we have always viewed SI's order fulfillment and inventory management solutions as a desirable service to a distribution company such as SED Colombia as well as others in the region.

Investment Activities

Paragon's capital allocation process, a cornerstone component of our business (and in our humble view, a critical component for *every business*) can be summarized in our five pillars:

1. **Intelligent capital allocation is the most important driver of long-term intrinsic value creation.** At Paragon, we will structure our incentives and culture around that philosophy.
2. **Per share growth**, **not overall growth is what counts**.
3. **We favor a decentralized organizational structure.** By devoting minimal resources at the parent company and letting our managers run their respective businesses, this approach will serve to maximize business output and minimize costs.
4. **Independent, rational thinking is paramount to long-term success**. The short-term focus behind Wall Street's modus operandi – reflected in the attention given to earning's guidance and quarterly results – is a distraction that we will avoid at all times.
5. **Patience is a tremendous asset in business and the allocation of capital.** We will act only inasmuch as fertile opportunities present themselves, and not because everyone else is buying or selling. We will not hesitate to bet big or act boldly when presented with opportunities to do so.

As the Chairman, CEO, and chief capital allocator at Paragon, shareholders are, to a great extent, relying on my ability to effectuate value creating decisions that ultimately leads to in an increase in Paragon's per share intrinsic value. I am and will most likely continue to be the company's largest shareholder. My financial net worth and that of the Gad family is fully hitched to the Paragon wagon. I will win alongside Paragon shareholders, not at their expense. More importantly, I will experience the greatest financial pain as a result of any deterioration in Paragon's value.

Marketable Securities

The following chart lists our minority investments, with an aggregate market value of $100,000 or more, as of April 30, 2015:

Security	Cost Basis	Market Value
Common Stock		
51,700 sh Bellatrix Exploration	$150,828	$162,338
Preferred Stock		
14,000 sh Meritage Hospitality 8% Series B	$128,037	$182,000

Two years ago, Paragon made an investment in a property and casualty insurance company. As we seek to acquire additional shares, Paragon is better served by not disclosing the investment until we have completed acquiring our stake or securities regulations require disclosure. As of April 30, 2015 Paragon's investment in this insurance company has a cost basis of $152,231 and a market value of $237,674, respectively.

The Annual Meeting

The Annual Meeting/Shareholder Presentation will be held on Tuesday, June 23, 2015 from 10:00 a.m. to 12:00 p.m. EST at the Atlanta offices of our corporate counsel, **Thompson Hine LLP, Two Alliance Center, 3560 Lenox Road, Suite 1600, Atlanta, GA 30326.**

Please follow the signs to the meeting. We will start the meeting promptly at 10:00 a.m., and we will devote the bulk of the meeting to shareholder Q&A. We encourage all shareholders to attend as this will provide the best forum to communicate with management.

Sincerely,

Hesham Gad,
Chairman and Chief Executive Officer
June 5, 2015