

**PARAGON TECHNOLOGIES, INC.
BOARD OF DIRECTORS**

AUDIT COMMITTEE CHARTER

I. PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: 1) the financial reports and other financial information provided by the Corporation to any governmental body or the public; 2) the Corporation's systems of internal controls regarding finance, accounting, legal compliance, and ethics that management and the Board have established; and 3) the Corporation's accounting, financial, and business reporting processes generally. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Corporation's policies, procedures, and practices at all levels. The Audit Committee's primary duties and responsibilities are to:

A. Serve as an independent and objective party to monitor the Corporation's financial reporting process and internal control systems.

B. Review and appraise the audit efforts of the Corporation's independent auditors.

C. Provide an open avenue of communication among the independent auditors, financial, and senior management, and the Board of Directors.

The Audit Committee does not plan or conduct audits, prepare the Corporation's financial statements, nor does it determine that the Corporation's financial statements and disclosures are complete, accurate, and in accordance with U.S. generally accepted accounting principles and applicable rules and regulations. These functions are the responsibility of Corporation management and the independent auditor.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

II. COMPOSITION

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall (i) be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Audit Committee, (ii) meet the independence requirements of Section 10A(m)(3) of the Securities and Exchange Act of 1934 (the "Exchange Act") and the rules and regulation of the Commission, (iii) meet the independence and financial literacy requirements of the listing standards of the NYSE Amex, as modified or supplemented from time to time. If a member of the Audit Committee ceases to be independent in accordance with the requirements of the Exchange Act and the corresponding provisions of the listing standards of the NYSE Amex for reasons outside the member's reasonable control, that person, with prompt notice to the Exchange, may remain an audit committee member in accordance with the listing standards of the NYSE Amex. All members of the Audit Committee shall be able to read and understand fundamental financial statements, including balance sheets, income statements, and cash flow statements, and at least one member of the Audit Committee shall be financially sophisticated as defined in the listing

standards of the NYSE Amex. Audit Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation or an outside consultant. Audit Committee members shall not simultaneously serve on the audit committees of more than two other public companies.

The members of the Audit Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly elected and qualified. Unless a Chairman of the Audit Committee is elected by the full Board, the members of the Audit Committee may designate a Chairman of the Audit Committee by majority vote of the full Committee Membership.

III. MEETINGS

The Audit Committee shall meet on at least a quarterly basis, or more frequently as circumstances dictate. A majority of the members of the Audit Committee shall constitute a quorum for the transaction of business. Minutes of each meeting of the Audit Committee should be recorded by the Secretary to the Audit Committee. Approval by a majority of the members present at a meeting at which a quorum is present shall constitute approval by the Audit Committee. The Audit Committee may also act by unanimous written consent without a meeting. As part of its job to foster open communication, the Audit Committee should meet at least annually with management and the independent auditors in separate executive sessions to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately. In addition, the Audit Committee or at least its Chairman, or his designee, should meet with the independent auditors and management quarterly to review the Corporation's financials consistent with Section IV.4. below. The Audit Committee may request any officer or employee of the Corporation or the Corporation's outside counsel or independent auditor to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee.

IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Audit Committee shall:

Documents/Reports Review

1. Review and update this Charter periodically, at least annually, as conditions dictate.
2. Review the Corporation's annual financial statements and any reports or other financial information submitted to any governmental body, or the public, including any certification, report, opinion, or review rendered by the independent auditors.
3. Review with financial management and the independent auditors the Form 10-Q and Form 10-K prior to its filing or prior to the release of earnings. The Chairman of the Audit Committee, or his designee, may represent the entire Audit Committee for purposes of this review.
4. Discuss with management the Corporation's earnings press releases as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made).

5. Review disclosures made to the Audit Committee by the Corporation's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Corporation's internal controls.

Independent Auditors

6. The Audit Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to stockholder ratification). The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Audit Committee.

7. The Audit Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by its independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Audit Committee at its next scheduled meeting.

8. Review and discuss reports from the independent auditors on:

- a. All critical accounting policies and practices to be used.
- b. All alternative treatments of financial information within U.S. generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
- c. Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

9. Review the independence, performance, and qualifications of the independent auditors at least annually. As part of such review, the Audit Committee shall obtain and review a report from the independent auditors at least annually regarding:

- a. the independent auditors' internal quality-control procedures,
- b. any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, and
- c. any steps taken to deal with any such issues.

10. Require the independent auditors to submit annually to the Audit Committee a formal written statement, delineating all relationships between the independent auditors and the Corporation in accordance with Independence Standards Board (ISB) Standard No. 1. Actively engage in a dialogue with the independent auditors about any relationships or services that could impact their objectivity and independence. Take appropriate action in response to the independent auditors' report regarding their independence.

11. Periodically consult with the independent auditors, out of the presence of management, about internal controls and the fullness and accuracy of the Corporation's financial statements.

12. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

13. Recommend to the Board policies for the Corporation's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Corporation.

Financial Reporting Processes

14. In consultation with the independent auditors, review the integrity of the Corporation's financial reporting processes, both internal and external.

15. Consider the independent auditors' judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.

16. Consider and approve, if appropriate, major changes to the Corporation's auditing and accounting principles and practices as suggested by the independent auditors or management.

Process Improvement and Business Controls

17. Establish regular and separate systems of reporting to the Audit Committee by each of management and the independent auditors regarding any significant judgments made in management's preparation of the financial statements, and the view of each as to appropriateness of such judgments.

18. Following completion of the annual audit, review separately with each of management and the independent auditors any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

19. Review any significant disagreement among management and the independent auditors in connection with the preparation of the financial statements.

20. Review with the independent auditors and management the extent to which changes or improvements in financial or accounting practices, as approved by the Audit Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Audit Committee.)

21. Establish regular and separate systems of reporting to the Audit Committee by management regarding controls and operations of the Corporation's business units, if applicable, with particular emphasis on risk and profitability.

22. Establish procedures for the receipt, retention, and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Ethical and Legal Compliance

23. Establish, review, and update periodically a Code of Business Conduct and Ethics, and ensure that management has established a system to enforce this Code.

24. Review management's monitoring of the Corporation's compliance with the Corporation's Code of Business Conduct and Ethics, and ensure that management has the proper review system in place to ensure that Corporation's financial statements, reports, and other financial information disseminated to governmental organizations and the public satisfy legal requirements.

25. Review with the Corporation's counsel, legal compliance matters, including corporate securities trading policies.

26. Review with the Corporation's counsel, any legal matter that could have a significant impact on the Corporation's financial statements.

27. Perform any other activities consistent with this Charter, the Corporation's Bylaws and governing law, as the Audit Committee or the Board deems necessary or appropriate.

28. The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting, or other advisors. The Corporation shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

29. Review and approve any transactions between the Corporation and its officers, directors, or 5% stockholders which would be reportable in the Corporation's proxy statement.

V. REPORTING RESPONSIBILITY

The minutes of the Audit Committee reflecting, among other things, all actions taken by the Audit Committee, shall be distributed to the Board at the next Board meeting following the meeting of the Audit Committee that is the subject of such minutes.

The Audit Committee shall prepare the report required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement.

In addition, matters within the responsibility of the Audit Committee may be discussed by the full Board from time to time during the course of the year.