

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K/A

Annual report pursuant to section 13 and 15(d) [amend]

Filing Date: **2005-05-02** | Period of Report: **2004-12-31**  
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### FILER

#### PARAGON FINANCIAL CORP

CIK: **1089979** | IRS No.: **943227733** | State of Incorporation: **DE** | Fiscal Year End: **1231**  
Type: **10-K/A** | Act: **34** | File No.: **000-27437** | Film No.: **05791969**  
SIC: **6162** Mortgage bankers & loan correspondents

Mailing Address  
5000 SAWGRASS VILLAGE  
DRIVE  
PONTE VERDE BEACH FL  
32082

Business Address  
349 OYSTER POINT BLVD  
STE 201  
SOUTH SAN FRANCISCO CA  
94080  
9042850000

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K/A-1**

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- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-27437

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**PARAGON FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
*(State or other jurisdiction  
of incorporation)*

**2207 Sawgrass Village Drive**  
**Ponte Vedra Beach, FL**  
*(Address of principal executive offices)*

**94-3227733**  
*(I.R.S. Employer  
Identification No.)*

**32082**  
*(Zip Code)*

Registrant's telephone number, including area code: (904) 285-0000

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Securities registered pursuant to Section 12(b) of the Act:  
None

Securities registered pursuant to Section 12(g) of the Act:  
Common Stock, \$0.0001 par value

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Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the Registrant on June 30, 2004 was approximately \$1,491 based upon the closing sales price for our common stock on such date of \$0.05 per share as reported on such date by the Nasdaq Over-The-Counter Bulletin Board. In making this calculation, the Registrant has assumed, without admitting for any other purpose, that all executive officers and directors of the Registrant are affiliates.

As of April 29, 2005, the Registrant had 86,706,250 shares of common stock outstanding.

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EXPLANATORY NOTE:

This Annual Report on Form 10-K/A has been filed by the Registrant to amend the Annual Report on Form 10-K filed by the Registrant on April, 2005 to include the information required to be disclosed by Items 10-14 of Part III of Form 10-K. "Paragon", "we", "us", or "our" means Paragon Financial Corporation.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.**

***(a) Identification of Directors.***

The Board of Directors presently consists of four members. Directors are elected annually at the annual meeting of stockholders. Their respective terms of office continue until the next annual meeting of stockholders and until their successors have been elected and qualified in accordance with our Bylaws. Certain information regarding each of our current directors, including his principal occupation during the past five years and current directorships, is set forth below.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Paul K. Danner	47	Chairman and Chief Executive Officer
George O. Deehan	62	Director
Charles D. Van Sickle	63	Director
Stephen J. Croskrey	44	Director

PAUL K. DANNER, has served as our Chairman and Chief Executive Officer from November 2005 and as a Director since June 2002. Mr. Danner is active in the United States Naval Reserve where he currently holds the rank of Captain and serves as the Commanding Officer of a Naval Air Systems Command unit headquartered at Naval Station Newport, RI. Mr. Danner was Chairman from September 2002 to December 2003 and Vice Chairman from June 2002 to September 2002. Mr. Danner also served as Secretary from June 2002 to May 2003 and Treasurer from June 2001 to December 2002. From August 2001 to May 2002, Mr. Danner was a director and Chief Executive Officer of Paragon Homefunding, Inc., the entity that merged with a subsidiary of the Company. Mr. Danner was a founder of that company. From January 1999 to October 2000 Mr. Danner was employed in various roles at MyTurn.com, Inc., including as Chief Executive Officer. MyTurn later filed for protection under the federal bankruptcy laws in March 2001. From 1997 to 1998, Mr. Danner served as Vice President of Zekko Corp., a technology company and from 1996 to 1997 Mr. Danner was the managing partner of Technology Ventures, a consulting firm. From 1985 to 1998 he held executive-level and sales & marketing positions with a number of technology companies including NEC Technologies and Control Data Corporation. Mr. Danner previously served on active duty with the United States Navy where he flew the F-14 Tomcat.

GEORGE O. DEEHAN, has served as a Director since September 2003, our Chairman from January 2004 to November 2004 and as our Chief Executive Officer from October 2003 to November 2004. Mr. Deehan is a consultant to and an investor in eOriginal, Inc., a software development company, since March 2002. Mr. Deehan was President of eOriginal, Inc. from August 2000 until March 2002. Mr. Deehan was President and Chief Executive Officer of Advanta Leasing Services, the business equipment leasing unit of Advanta Business Services, from August 1998 until August 2000. Prior to joining, Advanta, Mr. Deehan served as President and Chief Operating Officer of Information Technology Services for AT&T Capital. Mr. Deehan is a director of NYFIX, Inc. and Sunset Financial Resources, Inc. which file reports under the Securities Exchange Act of 1934.

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CHARLES D. VAN SICKLE, has served as a director since February 2004. Mr. Van Sickle is a founder and director of KVI Capital, an equipment leasing and finance company based in Jacksonville, Florida since April 2000. From November 1998 to May 2000, Mr. Van Sickle was President and CEO of Healthcare Financial Services Corporation, a New York City based healthcare finance company. From May 1986 to January 1998, Mr. Van Sickle had various roles and responsibilities at AT&T Capital Corporation headquartered in Morristown, New Jersey.

STEPHEN E. CROSKREY, has served as a director since March 2005. From February 1999 to March 2005, Mr. Croskrey served as the President & CEO of the Products Division of Armor Holdings, Inc. Prior to Armor Holdings, Mr. Croskrey held senior executive positions with Allied Signal and Mobil Oil. Mr. Croskrey is a graduate of the Kellogg School of Management at Northwestern University where he completed the MBA program in 1998, and the United States Military Academy at West Point where in 1982 he earned a BS degree in Engineering and was commissioned as an officer in the United States Army. Mr. Croskrey spent 6 years on active duty during which time he attained the rank of Captain and served as a Company Commander in Korea and Fort Lewis, Washington.

***(b) Identification of Executive Officers.***

Officers are elected annually by our Board of Directors and serve at the discretion of the Board of Directors. Our executive officers as of April 29, 2005 are set forth below.

PAUL K. DANNER, see “Identification of Directors” in Item 10(a) of this Annual Report on Form 10-K/A for Mr. Danner’s biographical information.

SCOTT L. VINING, 42, has served as our Chief Financial Officer and Treasurer since March 2003. From September 1996 to March 2003, Mr. Vining was employed by Armor Holdings, Inc. most recently as Treasurer and Chief Accounting Officer. Mr. Vining is a certified public accountant.

***(c) Identification of Certain Significant Employees.***

Not applicable.

***(d) Family Relationships.***

There are no family relationships between any director, executive officer, or person nominated or chosen by us to become a director or executive officer.

***(e) Business Experience.***

The business experience of each of our directors and executive officers is set forth in Item 10(a)–Identification of Directors of this Annual Report on Form 10-K/A and the business experience of those executive officers who are not also our directors is set forth in Item 10(b)–Identification of Executive Officers of this Annual Report on Form 10-K/A.

The directorships held by each of our directors in any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, as amended, or subject to Section 15(d) of such Act or any company registered as an investment company under the Investment Company Act of 1940, as amended, are set forth in Item 10(a)–Identification of Directors of this Annual Report on Form 10-K/A.

***(f) Involvement in Certain Legal Proceedings.***

Except as set forth in Item 10(a)–Identification of Directors of this Annual Report on Form 10-K/A related to Mr. Danner, to the best of our knowledge, none of our other directors or executive officers has been involved during the past five years in any legal proceedings required to be disclosed pursuant to Item 401(f) of Regulation S-K.

***(g) Promoters and Control Persons.***

Not applicable.

***(h) and (i) Audit Committee and Audit Committee Financial Expert.***

The full Board of Directors currently performs the functions of an Audit Committee. Two members of the Board of Directors, Charles D. Van Sickle and Stephen Croskrey satisfy the definition of “independent” as defined under the NASDAQ listing standards. The Board has not adopted a written charter for the audit committee at this time.

***(j) Procedures for Stockholder Nominations to our Board of Directors.***

No material changes to the procedures for nominating directors by our stockholders were made in 2004.

***Code of Conduct and Ethics***

We have adopted a Code of Business Conduct and Ethics that applies to all Paragon employees, including our chief executive and financial officers. This document has been filed as Exhibit 14.1 to this Annual Report on Form 10-K for the year ended December 31, 2004.

***Section 16(a) Beneficial Ownership Reporting Compliance.***

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than ten percent of a registered class of our equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Directors, executive officers, and greater than ten percent holders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file.

The Company believes that during the 2004 fiscal year, the officers, directors and holders of more than 10% of the Company’s Common Stock complied with all Section 16(a) filing requirements, with the following exceptions:

Mr. Deehan received options to purchase 3,000,000 shares of our common stock on July 29, 2004 at \$0.04 per share (the market price on that date). This transaction has not been reported on Form 4.

Mr. Vining received options to purchase 3,000,000 shares of our common stock on July 29, 2004 at \$0.04 per share (the market price on that date). This transaction was subsequently reported on Form 4 filed by Mr. Vining on May 2, 2005.

Mr. Christopher Liston sold 4,970,000 shares of our common stock in 2004. The transactions associated with these sales have not been reported on Form 4.

Mr. Van Sickle received 625,000 shares of our common stock (valued at \$25,000) on December 31, 2004 in payment for services as a director. This transaction has not been reported on Form 4.

## ITEM 11. EXECUTIVE COMPENSATION.

The following table provides certain summary information concerning compensation (including salary, bonuses, stock options, and certain other compensation) paid by us for services in all capacities or accrued for the fiscal years ended December 31, 2004, 2003 and 2002 to our Chief Executive Officer during the most recently completed fiscal year-end and to the other person who served as our executive officer at December 31, 2004 and whose salary plus bonus exceeded \$100,000 in Fiscal Year 2004 (together being hereinafter referred to as the "Named Executive Officers").

Name and Principal Position	Fiscal Year	Annual Compensation			Long-term Compensation	
		Salary (\$)	Bonus (\$)	Other Annual Comp (\$)	Securities Underlying Options (#)	All Other Compensation
Paul K. Danner Current Chairman of the Board and CEO	2004	\$-	\$-	\$-	-	-
	2003	\$100,000	\$-	\$-	3,000,000	70,000
George O. Deehan Former Chairman of the Board and Former CEO	2003	\$51,846	\$-	\$-	12,500,000	-
	2002	\$150,000	-	-	-	-
Steven A. Burluson Former CEO, Former Interim Chief Financial Officer and Former Director	2003	\$66,667 (1)	30,000	14,281 (2)	16,000,000	-
	2002	\$45,000	-	-	3,000,000	-
Scott L. Vining Chief Financial Officer and Treasurer	2004	\$100,000	-	-	-	-
	2003	\$45,000	-	-	-	-

### Stock Option Grants in 2004

We granted the following options to our Named Executive Officers during fiscal 2004.

Name	Individual Grants					Potential Realizable Value At Assumed Annual Rate of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Option Grants (#)	Percent of Total Options Granted to Employees in Fiscal Year	Exercise Price	Expiration Date	5%	10%	
Paul K. Danner	-	-	-	-	-	-	
George O. Deehan	3,000,000	13.1 %	\$0.04	7/29/2014	\$75,467	\$191,249	



Scott L. Vining

3,000,000	13.1	%	\$0.04	7/29/ 2014	\$75,467	\$191,249
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## Stock Option Exercises and Option Values for 2004

None of the Executive Officers named in the Summary Compensation Table exercised any stock options in 2004. The table below sets forth information concerning the number and value of their unexercised stock options at December 31, 2004.

Name	Number of Securities Underlying Unexercised Options at 12/31/04 (#)		Value of Underlying In-The-Money Options at 12/31/04 (1) (2)	
	Exercisable	Non-Exercisable	Exercisable	Non-Exercisable
Paul K. Danner				
George O. Deehan	2,000,000	3,000,000	\$ -	\$ -
Scot L. Vining	666,667	3,333,333	\$ -	\$ -

- (1) Calculated on the basis of \$0.04 per share, the closing sales price of the common stock on the OTC Bulletin Board December 31, 2004, less the exercise price payable for such shares.
- (2) The exercise prices of shares underlying unexercised options were at or above the market value of the common stock at December 31, 2004. Therefore, there is no value ascribed to the underlying options.

## Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of December 31, 2004.

### Equity Compensation Plan Information<sup>(1)</sup>

Plan category	Number of securities to be issued upon exercise of outstanding options and warrants	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding issued and outstanding options, warrants and rights)
Equity compensation plans approved by security holders:	54,245,342	\$ 0.15	45,754,658
Equity compensation plans approved by security holders:	-	-	-
<b>TOTAL</b>	<b>54,245,342</b>	<b>\$ 0.15</b>	<b>45,754,658</b>

## Employment Contracts and Termination, Severance and Change of Control Arrangements

Messrs. Deehan and Vining were employed by the Company pursuant to written employment agreements. On May 31, 2004, we released Messrs. Deehan and Vining from these agreements by the Company.

Our current named executive officers are not covered by written employment agreements.

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## ***Compensation of Directors***

Mr. Van Sickle received 625,000 shares of our common stock (valued at \$25,000 on December 31, 2004) for his services as a director for the year ended December 31, 2004.

All members of the Board of Directors receive reimbursement for expenses associated with attendance of meeting of the Board of Directors.

## ***Report on Executive Compensation***

The Company's executive compensation program is designed to attract, motivate and retain management with incentives linked to financial performance and enhanced stockholder value. Our compensation program currently consists of a number of components, including a cash salary, cash incentive bonuses, and stock option grants.

We currently do not have a compensation committee. The Board of Directors as a whole, reviews salary, bonus and option award information for competitive companies of comparable size in similar industries, as well as that of companies not in its industry which do business in locations where the company has operations. Based in part on this information, the Board of Directors generally sets salaries at levels comparable to such companies. Bonuses are generally discretionary, but in some cases may be set forth in employment agreements and based on the achievements of performance thresholds. In either case, bonuses are linked to company performance during the year and thus align the interest of executive officers with those of the stockholders. The Board of Directors also assesses each executive officer's individual performance and contribution in determining bonus levels. The Board of Directors uses grants out of our 2002 Equity Participation Plan to motivate its executive officers and to improve long-term market performance of the Company's common stock.

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Since the Board of Directors believes that the granting of options to purchase shares of common stock provides its executive employees with the long-term incentive to work for the betterment of the Company, stock options are granted to executives, in some cases upon commencement of employment and in some cases periodically. Additionally, grants of options are made periodically to other selected employees whose contributions and skills are critical to the long-term success of the Company. Options are generally granted with the exercise price equal to the market price of our shares of common stock on the date of grant, generally vest over a period of at least three years and generally expire after ten years.

*Paul K. Danner*  
*George O. Deehan*  
*Charles D. Van Sickle*  
*Stephen Croskrey*

***Compensation Committee Interlocks and Insider Participation***

During the year ended December 31, 2004 each of Messrs. Deehan and Danner were directors and employees of the Company. Mr. Deehan received compensation as an employee in accordance with his agreement with the Company. See “Executive Officers–Employment Agreements” and “Related Party Transactions.” Each director participated in discussions regarding executive compensation.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.**

The following table sets forth certain information with respect to beneficial ownership of our shares of common stock as of April 29, 2005: (i) by each person (or group of affiliated persons) who we know to own beneficially more than five percent of our outstanding shares of common stock; (ii) by the individuals who served as our chief executive officer during the fiscal year ended December 31, 2004; (iii) by the executive officer other than the chief executive officer who was employed by us on December 31, 2004; (iv) by each of our directors; and (v) by all of our current directors and executive officers as a group. As of April 29, 2005, we had 86,706,250 shares of common stock outstanding. Except as indicated in the footnotes to this table, the persons named in the table have sole voting and investment power with respect to all shares shown as beneficially owned by them.

Name and Address of Beneficial Owner*	Beneficially Owned Shares Number(1)	Percent of Class
<b>5% Stockholder</b>		
Christopher Liston 918 Ponte Vedra Blvd. Ponte Vedra, FL 32082	9,458,684	9.3 %
Abhijit Deshmukh (2) 830-13 A1A North, #414 Ponte Vedra Beach, FL 32082	6,493,506	6.4 %
Steven A. Burluson (3) 1828 Lake Marshall Dr. Gibsonia, PA 15044	7,000,000	6.9 %
<b>Named Executive Officers and Directors</b>		
Stephen Croskrey (4)	22,103,896	21.8 %
Paul K. Danner (5)	19,699,928	19.4 %
George O. Deehan (6)	2,336,000	2.3 %
Charles Van Sickle (7)	745,000	* %
Scott L. Vining (8)	666,667	* %
All current directors and executive officers as a group (5 persons) (9)	45,551,491	44.9 %

\* - Less than 1%

- (1) As used in this table, a beneficial owner of a security includes any person who, directly or indirectly, through contract, arrangement, understanding, relationship or otherwise has or shares (a) the power to vote, or direct the voting of, such security or (b) investment power which includes the power to dispose, or to direct the disposition of, such security. In addition, a person is deemed to be the beneficial owner of a security if that person has the right to acquire beneficial ownership of such security within 60 days.
- (2) Includes warrants to purchase 3,246,753 shares of common stock.
- (3) Includes options to purchase 7,000,000 shares of common stock.
- (4) Includes warrants to purchase 11,551,948 shares of common stock. The address for Mr. Croskrey is 830-13 A1A North, #414, Ponte Vedra Beach, FL 32082.
- (5) Includes 825,000 shares held in a custodial accounts for the benefit of Mr. Danner' s minor children of which Mr. Danner is a custodian. The address for Mr. Danner is 830-13 A1A North, #414, Ponte Vedra Beach, FL 32082.
- (6) Includes options to purchase 2,000,000 shares of common stock, warrants to purchase 56,000 shares of common stock, and the conversion into 280,000 shares of common stock of the convertible note held by Mr. Deehan. The address for Mr. Deehan is is 830-13 A1A North, #414, Ponte Vedra Beach, FL 32082.
- (7) Includes warrants to purchase 20,000 shares of common stock and the conversion into 100,000 shares of common stock of the convertible note held by Mr. Van Sickle. The address for Mr. Van Sickle is 830-13 A1A North, #414, Ponte Vedra Beach, FL 32082.
- (8) Includes options to purchase 666,667 shares of common stock. The address for Mr. Vining is 830-13 A1A North, #414, Ponte Vedra Beach, FL 32082.
- (9) See footnote (4 - 8).

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

On June 4, 2004, subject to certain conditions, confidentiality provisions and approval of the majority of the holders of our common stock, we agreed to sell our largest subsidiary, PGNF Home Lending Corp. ("PGNF"), to Philip Lagori ("Lagori"), the former owner of PGNF, and formerly, our largest shareholder (the "PGNF Transaction") holding 52,329,734 shares of our common stock (or 50.5%). On June 30, 2004, we received consent from holders of 97,647,656 shares (or 83.89%) of our common stock on a pre-PGNF Transaction basis and completed this sale. After affecting the number of outstanding shares resulting from the PGNF Transaction, we received consent from holders of 45,317,921 shares (or 70.74%) of our common stock. Pursuant to the agreement, we exchanged the common stock of PGNF, as well as the assumption of all of PGNF' s liabilities, contingent and otherwise, for 52,329,735 shares of our common stock valued at \$2,355,000 (based upon the closing price of \$0.045 on June 30, 2004) and 1,800 shares of our Series E preferred stock plus accrued dividend valued at \$1,904,000.

### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

During the years ended December 31, 2004 and 2003, fees for services provided by Stevens, Powell & Company, P.A. ("Stevens, Powell & Company"), our independent registered public accounting firm, were as follows:

	<u>Year Ended December</u>	
	<u>2004</u>	<u>2003</u>
Audit Fees (1)	\$68,623	\$74,000
Tax Fees (2)	11,215	-
<b>Total</b>	<b>\$79,838</b>	<b>\$74,000</b>

- (1) Audit Fees consisted of fees billed for services rendered and expenses incurred for the audit of the Company' s annual financial statements, review of financial statements included in the Company' s quarterly reports on Form 10-Q, and other services normally provided in connection with statutory and regulatory filings.
- (2) Tax Fees consisted of fees billed for preparation of required income tax returns.

Our Board of Directors has determined that the rendering of non-audit services by Stevens, Powell & Company was compatible with maintaining their independence.

***Audit Committee Pre-Approval Policy***

Our Board of Directors requires the pre-approval of any audit or non-audit engagement of Stevens, Powell & Company. In the event that we wish to engage Stevens, Powell & Company to perform accounting, technical, diligence or other permitted services not related to the services performed by Steven, Powell & Company as our independent registered public accounting firm, management of the company summarizes for the Board of Directors the proposed engagement, the nature of the engagement and the estimated cost of the engagement. This information is reviewed by our Board of Directors, who evaluates whether the proposed engagement will interfere with the independence of Stevens, Powell & Company in the performance of its auditing services. For 2004, all audit and non-audit services were approved by the Board of Directors prior to the commencement of such work by Steven, Powell & Company.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENTS SCHEDULES, AND REPORTS ON FORM 8-K**

(c) Exhibits

The following Exhibits are filed herewith:

<b>Exhibit Number</b>	<b>Description</b>	
14.1	Code of Conduct and Ethics	_____
31.1	Certification of Chief Executive Officer Under Section 302. Filed herewith.	
31.2	Certification of Chief Financial Officer Under Section 302. Filed herewith	



## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

Paragon Financial Corporation

/s/ PAUL K. DANNER

Paul K. Danner

Chairman & Chief Executive Officer

Dated: May 2, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ PAUL K. DANNER Paul K. Danner	Chairman of the Board of Directors and Chief Executive Officer	May 2, 2005
/s/ SCOTT L. VINING Scott L. Vining	Chief Financial Officer, Treasurer and Secretary	May 2, 2005
/s/ GEORGE O. DEEHAN George O. Deehan	Director	May 2, 2005
/s/ CHARLES VAN SICKLE Charles Van Sickle	Director	May 2, 2005
/s/ STEPHEN CROSKREY Stephen Croskrey	Director	May 2, 2005

## Code of Business Conduct and Ethics

**Effective April 28, 2004**

**Background**

Paragon Financial Corporation is committed to conducting our business in accordance with applicable laws, rules and regulations and the highest standards of business conduct, and to full and accurate financial disclosure in compliance with applicable law. This Code of Ethics applies to the company's outside directors and all of the company's employees, and constitutes the company's "code of ethics" within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and is the company's "code of conduct" within the meaning of the listing standards of the NASDAQ Stock Market. The company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer (or persons performing similar functions), other executive officers and outside directors are referred to in this Code of Ethics as "Senior Officers." This Code of Ethics sets forth specific policies to guide you in the performance of your duties.

In addition to complying with applicable law, you must engage in and promote honest and ethical conduct and abide by this Code of Ethics as well as other company policies and procedures that govern the conduct of our business. Your responsibilities include creating a culture of ethical business conduct and commitment to compliance, maintaining a work environment that encourages employees to raise concerns, and promptly addressing employee compliance concerns.

**Compliance Officer**

The Compliance Officer under this Code of Ethics is the Chief Financial Officer or such other person as shall be designated by the Board of Directors.

**Ethical Behavior and Compliance with Laws**

Every Applicable Individual Act must act with honesty and integrity in all Company-related matters and proactively promote ethical behavior by other Applicable Individuals. Every Applicable Individual must comply with all applicable governmental laws, rules and regulations in all Company-related matters.

**Conflicts of Interest**

Every Applicable Individual must avoid any situation or personal or professional interest that interferes with (or could reasonably appear to interfere with) the exercise of his or her independent judgment, or his or her fiduciary or job responsibilities, or his or her ability to act in the best interests of the Company.

**Financial Reporting and Public Communication**

All Applicable Individuals involved in the Company's financial reporting and/or public communication process must produce, or cause to be produced, full, fair, accurate, timely, and

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understandable disclosure in reports and documents that the Company files with or submits to the Securities and Exchange Commission and in other public communications.

## **Waivers**

Any request by an Applicable Individual for a waiver of any provision of this Code of Ethics must be in writing and addressed to the Compliance Officer unless the Applicable Individual is a member of the Company's board of directors or an executive officer or a senior financial officer the Company, in which case it must be addressed to the Chairman of the Audit Committee. With regard to directors, executive officers and senior financial officers, the board of directors will have the sole and absolute discretionary authority to approve any waiver from this Code of Ethics. Any waiver for a director, executive officer or senior financial officer from this Code of Ethics will be disclosed promptly on Form 8-K or any other means approved by the Securities and Exchange Commission. For purposes of this Code of Ethics, the term "senior financial officer" includes the chief executive officer, chief financial officer and principal accounting officer or controller, and persons performing similar functions.

## **Report of Violations**

Every Applicable Individual must promptly report to the Compliance Officer any event, circumstance, or transaction that could reasonably be expected to give rise to a violation of this Code of Ethics.

## **Violations of the Code of Ethics**

Violations of this Code of Ethics are grounds for disciplinary action (including immediate termination of employment for officers and employees), adapted to the circumstances of the particular violation and having as a primary objective furtherance of the Company's interest in preventing violations and making clear that violations are neither tolerated nor condoned. Disciplinary action may be taken, not only against individuals who authorize or participate directly in the violation of the policy, but also against:

any Applicable Individual who may have deliberately failed to report a violation of this Code of Ethics;

any Applicable Individual who may have deliberately withheld relevant and material information concerning a violation of this Code of Ethics; and

the violator's managerial superiors, to the extent that the circumstances of the violation reflect inadequate leadership and lack of diligence.

## **Periodic Review**

The Compliance Officer shall be responsible for periodically reviewing this Code of Ethics to insure that it satisfies all applicable laws and regulations and is indicative of "best practices" for public reporting companies. If changes are deemed necessary or advisable, the Compliance Officer shall make appropriate recommendations to the board of directors.

## CERTIFICATIONS

I, Paul K. Danner, certify that:

1. I have reviewed this Annual Report on Form 10-K of Paragon Financial Corporation;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.) paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986;

c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 2, 2005

/s/ PAUL K. DANNER

Paul K. Danner,  
Chairman and Chief Executive Officer

## CERTIFICATIONS

I, Scott L. Vining, certify that:

1. I have reviewed this Annual Report on Form 10-K of Paragon Financial Corporation;

2. Based on my knowledge, this report 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b.) paragraph omitted pursuant to SEC Release Nos. 33-8238 and 34-47986;

c.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 2, 2005

/s/ SCOTT L. VINING

Scott L. Vining,

Chief Financial Officer, Treasurer and Secretary