

Paragon Capital Management, Ltd.

999 18th Street, Suite 1220

Denver, CO 80202

303-293-3680

www.pcm-net.com

March 31, 2011

This Firm brochure is **Part 2A of Form ADV** a regulatory filing required by the Securities and Exchange Commission (SEC). This brochure provides information about the qualifications and business practices of Paragon Capital Management. If you have any questions about the contents of this brochure, please contact us at 303-293-3680. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Paragon Capital Management also is available on the SEC's website at www.adviserinfo.sec.gov.

Material Changes

Part 2A of Form ADV has changed since last year. The SEC now requires a narrative in plain English instead of a “check the box” form. Federally regulated investment advisers must address the 15 items listed in the table of contents.

You can compare this new brochure with other advisers, since we must address each item in the table of contents in order. Furthermore, we are fiduciaries and must make full disclosure to you of all material facts relating to the advisory relationship. When we cannot avoid conflicts of interest, we disclose them, so you can understand and evaluate how these conflicts may affect you.

The purpose of this section, Material Changes, is to provide you with a summary of changes, since our last disclosure. Thus, you will not have to search through this document in future years to determine what if anything has changed. Every year, we will provide you with this summary; in addition, we must provide the brochure or an offer to send it to you.

Table of Contents

Material Changes	2
Table of Contents	3
Advisory Business	4
Fees and Compensation	7
Performance-Based Fees and Side-By-Side Management	8
Types of Clients	8
Methods of Analysis, Investment Strategies and Risk of Loss.....	9
Disciplinary Information.....	11
Other Financial Industry Activities and Affiliations	11
Code of Ethics, Participation or Interest in Client Transactions and Personal Trading ...	11
Brokerage Practices	12
Review of Accounts.....	13
Client Referrals and Other Compensation	14
Custody	14
Investment Discretion	14
Voting Client Securities.....	15
Financial Information.....	15

Advisory Business

Paragon Capital Management, Ltd. is an independent, privately owned investment advisory firm founded at the beginning of 1990 by Alexander Feick and Henry Lester who remain the owners and managing directors of the business.

Philosophy

Objective Advice

Our fundamental goal is to provide high quality objective advice. We do not receive commissions that might influence our recommendations. We do not offer other services that might affect our advice. For example, if we were in the trust management business, we might be inclined to recommend more trusts. Similarly, we do not receive any fees for referring business to other professionals, which might lead us to recommend those professionals.

Open Platform

We strive to find investments that meet our client's goals and our strategies regardless of how or where they are offered or are available. We are not limited by the investments available at any one brokerage firm. Thus, while most of our clients' assets are custodied at Schwab, we buy and sell municipal bonds almost exclusively through five other brokers.

Integrated Analysis

We consider your whole portfolio in planning and investment decisions. Therefore, we incorporate investments that we do not supervise in our recommendations. Tax treatment, asset protection, regulatory and legal factors as well as time horizon can all affect the process of structuring a portfolio. The time horizon and tax treatment for example of a trust, a deferred compensation plan, or a retirement account may make an investment compelling in one account and inappropriate in another.

Services

Paragon Capital Management provides financial planning, investment advice, and investment management services to its clients.

Financial Planning

Financial planning services range from the simple to the complex, spanning a tax forecast or mortgage analysis to how to structure and finance the sale of a business or the purchase of a corporate jet. Our core financial planning services include the following:

- Analysis and planning for retirement
- Estate planning including taxes, trusts, and gifting
- Income taxes
- Employee benefits, stock options, compensation contracts
- Life insurance
- Asset protection and risk management strategies
- Financing
- Educational funding

Investment Management

Clients work with us under the following arrangements:

- (1) Discretionary – Under a discretionary arrangement, the client grants Paragon Capital Management discretion and authority under a limited power of attorney to manage and invest their accounts according to established objectives and guidelines.
- (2) Non-discretionary – Under a non-discretionary arrangement, the client either implements Paragon Capital Management’s advice or Paragon Capital Management makes transactions on behalf of the client only on a limited basis or after reviewing recommended transactions with the client. Non-discretionary clients will generally not be able to participate in trades and opportunities in the same time frame as discretionary clients. For example, municipal bond opportunities can be fleeting.

We invest in individual stocks and bonds as well as mutual funds and exchange traded funds. We also invest in hedge funds and investment partnerships that pursue a variety of investment strategies.

We customize our investment strategies to our clients’ objectives. For example, we developed a socially responsible portfolio for one of our clients that was also constrained by the close to zero tax basis of the stock holdings and need to produce an income for life

that would at least keep up with inflation. Other clients have large legacy or corporate stock holdings that call for strategies that not only adjust for their unique exposures but also address the need for diversification over time.

Process

In our initial meeting, we determine a client's goals and concerns. We then compile information on their assets, investments, and liabilities, as well as income and expenses. With this information, as well as personal documents, including policies, wills, benefit plans, tax returns, etc., we build a preliminary picture of their financial situation as well as how we expect assets and income will change over time. We then meet with the client to review these projections and the assumptions and information that underpin them and revise these projections as necessary. Then we develop a plan of how to improve their current investments and expected cash flows, considering different accounts, taxes, time horizons, and other factors. Thus, we develop an investment policy and strategies for different accounts as well as for the whole Net Worth.

Hedge Funds

Paragon Capital Management offers two hedge funds. We created the funds, so our clients would not be constrained by investment minimums. By combining our clients' investments we can also have better access and greater efficiency in our relationship with the funds in which we are invested.

The Paragon Arbitrage Fund invests in hedge funds that invest primarily in merger arbitrage strategies. The Paragon Arbitrage Fund charges 0.25% per year; the funds in which the Paragon Arbitrage Fund invests also charge fees. A private placement memorandum is available to qualified investors. The fund is audited and clients are provided with audited financial statements within 120 days of the end of the fund's fiscal year-end.

The Paragon Hedged Equity Fund invests in a hedge fund that invests in long and short positions in stocks. The Paragon Hedged Equity Fund charges 0.25% per year; the fund in which the Paragon Hedged Equity Fund invests also charges fees. A private placement memorandum is available to qualified investors. The fund is audited and clients are provided with audited financial statements within 120 days of the end of the fund's fiscal year-end.

Client Assets Managed

As of December 31, 2010, we managed \$520,090,000 of client assets on a discretionary basis, and we managed \$80,247,000 of client assets on a non-discretionary basis.

Fees and Compensation

Fee Schedule

Paragon Capital Management offers investment advisory services on equity assets at the following rates:

- 1.00% of the account value up to \$1 million;
- 0.50% of the account value from \$1 million to \$5 million;
- 0.25% of account value from \$5 million to \$10 million;
- 0.15% of account value over \$10 million.

Paragon Capital Management offers investment advisory services on fixed income assets the following rates:

- 0.25% of account value.

Other Billing Practices

- ❑ Cash, unsupervised assets, and broad domestic equity index products are not subject to fees.
- ❑ Fees are billed quarterly in arrears.
- ❑ We deduct fees from client accounts but do not require it. In these cases, we send an invoice for the amount that details how the invoice was calculated.
- ❑ Financial planning services and investment advice are included in our investment advisory fees. We do not charge a separate fee for a financial plan or for financial planning services, projections, or advice; thus, our fees and compensation are limited to our investment advisory fees.
- ❑ In cases where clients' funds are invested in mutual funds or (some) exchange traded funds, they will pay a direct fee to Paragon Capital Management and an indirect fee to the mutual fund. Although securities on which Paragon Capital Management offers advice may be subject to commissions and fees, we do not earn these fees or benefit from them in any way.
- ❑ Some corporate clients are billed on a flat fee basis.
- ❑ Agreements with clients are non-assignable without the consent of the client.
- ❑ Investment advisory services are subject to a minimum annual fee of \$7,000.
- ❑ Paragon Capital Management also offers investment and financial planning services on an hourly basis at a rate of \$250 per hour.
- ❑ Fees are negotiable.

Conflicts

Just as commission based compensation schemes are at risk of generating excessive transactions, asset based fees may result in sub optimal behaviors. We may be biased to invest more in stocks, since stocks provide higher fees. Asset based fees also tend to lead to a focus on performance. This focus on performance can lead to a short-term focus, resulting in performance chasing. Also performance comparisons represent a business risk associated with diverging from other advisors.

We focus on developing an investment policy through an analysis of your individual circumstances and personal goals and constraints. Therefore, how we invest is broadly driven by a collaborative analysis. Furthermore, since our service incorporates financial planning the value to you largely depends on developing a sensible plan that you are committed to following.

With a plan and a policy, you have a better chance of avoiding investment pitfalls. Studies have shown that the average investor has a tendency to get into the stock market and other attractive investments late and then to exit after they under perform. Thus, many individuals have significantly under-performed.

Performance-Based Fees and Side-By-Side Management

We do not charge performance-based fees. Performance based fees take a share of capital gains on or capital appreciation of the assets of a client. We offer two hedge funds that invest in other hedge funds that charge performance fees. Performance based fees can create conflicts of interest that are disclosed in the placement memorandums for these investments.

Types of Clients

Most of our clients are individuals and their families. We advise trusts and qualified retirement plans as part of our work with these individual clients. Thus, we have set up profit sharing plans for client businesses. For example, we have helped clients with an existing pension plan develop a pension committee and an investment policy and then managed the pension's investments. Also as part of our clients' estate planning we have created trusts and manage them with strategies appropriate to the requirements and objectives of the trusts.

Methods of Analysis, Investment Strategies and Risk of Loss

We use numerous sources of data, analytical tools, and approaches to evaluate investments and strategies.

Asset Allocation

We help our clients invest their portfolios across different asset classes and investments. A client's objectives and constraints combined with our expectations for returns and risk are the inputs for this decision process. We build our own models of client's future finances as described under "Process" on page 6 and simulate different investment scenarios in order to help develop a client's allocation strategy. We also use the methods and strategies described below to develop our return and risk expectations as well as to develop specific investment strategies. Finally, we integrate the impact of taxes and other costs and the correlation of investment risk and returns into the allocation decision.

Long-term Focus

We analyze long-term returns, risk, value, trends, and patterns in different asset classes and markets to help us make allocation decisions. In this type of analysis, we consider the fundamental variables and relationships to asset classes and different markets. Since long-term stock market valuations have long-term predictive value, this is an important input in our decision process.

Asset Class Comparisons

We compare the relative movements of different investment styles and market subsets such as small company stocks, foreign stocks and domestic stocks. These groups of securities tend to move in and out of favor with investors, and, thus, can represent opportunities or risks to investors. For example, growth stocks went to extremes in valuation and out-performance compared to other groups of stocks during the technology bubble and then under-performed for most of the next cycle.

Equity Management

Our equity management approach emphasizes global diversification. We seek out strategies and market segments that offer good after-tax returns especially in relation to risks. We consider strategies based on style and stock market capitalization such as small cap value or large cap growth. We also evaluate strategies based on quality and other attributes such as profitability or dividend yield. We will use strategies based on the economic cycle such as emphasizing early or late cycle stocks. We will use different vehicles to implement these strategies such as mutual funds, exchange traded funds, separate accounts, hedge funds, or individual stocks or group of stocks.

In-Depth Manager Analysis

We analyze fund managers over long periods of time after making adjustments to better evaluate their performance. We cast a large net by using a variety of databases then narrow our search. We customize our comparisons in order to properly evaluate whether a manager or strategy adds value and whether the strategy is likely to add value in the future. We then adjust returns for fees and taxes. We apply statistical techniques to determine the probability of out-performance. Finally, we apply behavioral analyses and other criteria to weigh the likelihood that the manager's performance will continue over the intermediate time horizon.

Individual Stocks

Individual stocks are evaluated using a variety of factors, methods, and models, including insider buying, business trends, sensitivity to macro factors, income statement and balance sheet forecasts, interviews with management, valuation relative to historical valuations, and evaluation of analyst reports and investors' behavior. We have developed quality screens as well as models based on multiple quantitative factors. These models have been back-tested and have been run as live models for a number of years.

Fixed Income Management

We manage bonds by evaluating the economic cycle, secular trends, government policies, and spreads between different sectors. We use mutual funds, exchange traded funds, and individual bonds to implement strategies such as over-weighting sectors that reflect our analysis of the risks and opportunities. Since many of our clients are tax-sensitive, and we have found that municipal bonds offer attractive after-tax returns, we invest in municipal bonds extensively.

Municipal Bonds

We evaluate municipal bonds based on a top down process where we first evaluate the trend in interest rates and potential range in rates. This analysis helps us to determine where to position portfolios on the yield curve. Typically, we have found that intermediate bonds provide the most return per unit of risk. We also consider the seasonal patterns of bond issuance against investor demand. We then consider the credit environment for different states, municipalities, and types of issues against the spreads above benchmark yields. While we consider different securities in terms of value, liquidity, and other characteristics, we emphasize quality and capital preservation.

Alternatives

We employ a variety of alternative investments both to earn a satisfactory return at an acceptable risk level and to lower a client's overall portfolio risk through diversification. We use long-short strategies where a manager establishes long positions in stocks and short positions (a bet that the stock will decline in value). We also invest in merger

arbitrage strategies where a manager takes long and short positions in the companies involved in a merger. We will also invest in real estate securities and funds as well as in direct real estate investments, when the valuations and growth prospects of these investments are attractive. We have also considered and will continue to evaluate numerous other strategies that may offer opportunities for our clients

Risk

Investing in securities involves risk of loss of principal or purchasing power. In most strategies, there is an assumption that past relationships or patterns will persist in the future. However, investment rules, laws, and regulations change and past relationships are reinterpreted, resulting in losses. For example, before the depression, careful lenders had given themselves the choice of being repaid in gold; however, the Supreme Court ruled against them, and they were paid in less valuable currency.

Disciplinary Information

Paragon Capital Management and its employees have not been subject to any legal or disciplinary events.

Other Financial Industry Activities and Affiliations

Paragon Capital Management and its employees do not have any material relationships or arrangements that are material to our business or our clients.

Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Code of Ethics

The Paragon Capital Management Code of Ethics is based on the principle that all the employees of Paragon Capital Management have a fiduciary, ethical, and moral duty to act honestly, fairly, and in the best interests of our clients. Failure to abide by the Code results in disciplinary action including termination. A copy of our Code of Ethics is available to our clients or prospective clients upon request.

Our counselors are also committed to the CFA Institute Code of Ethics and Standards of Professional Conduct and the National Association of Personal Financial Advisors Code of Ethics and Fiduciary Oath.

Interest in Client Transactions

We manage two hedge funds in which Paragon Capital Management is the general partner. We therefore have a conflict of interest, since we are recommending an investment in which we have a financial interest. We address this conflict by charging a low fee of 0.25% per year that is less than or equal to our fees for managing other assets. Also the fee is commensurate with the costs and value added of monitoring these investments.

Personal Trading

Paragon Capital Management's advisors are permitted to invest in the securities in which clients invest. A conflict of interest exists, if the action of investing clients in a security or a derivative of the security would allow for trading profits or other benefits for an employee by virtue of the change in trading volume or value of the security. Employees must put client interests first and execute trades for their clients before they execute trades for themselves. We also review trading records to insure that the trading activity of our employees is consistent with our code of ethics.

Brokerage Practices

Best Execution

The recommendation and choice of brokers is based on the concept of best execution. We have a duty to you of best execution. Although best execution is sometimes considered shorthand for lowest commissions, it is really the idea of the most effective implementation of a recommendation, and, therefore, encompasses the decision process and implementation of an investment. Thus, access to different investments as well as timing and costs may be factors in best execution. For example, for municipal bonds, access to a wide range of offerings may be more important than the mark-up on any one bond. Thus, we use a number of different brokers for buying municipal bonds.

Directed Brokerage

We typically recommend that clients open a brokerage account at Schwab and custody their assets at Schwab. We do not require that you open an account with Schwab. We have client accounts at TD Waterhouse, Fidelity, Morgan Stanley, and other brokers. When a client designates a broker other than Schwab, we may be limited in our access to certain products and costs may be higher. Of course, we will try to negotiate access to products and the best rates.

Our choice of Schwab is based on a number of factors, including the quality of their services, the competitiveness of their commissions, fees, and margin interest rates, and their financial strength and stability. Importantly, by consolidating our brokerage and custody primarily with one broker, we are in a better position to negotiate and receive

better terms for you. Our costs and time to execute trades on your behalf are also lowered through this relationship.

Developing a tight relationship with one brokerage company can present a conflict of interest because it makes investments that aren't offered by that broker more costly to research, difficult to participate in, and more time intensive to monitor. Thus, many advisers will only offer investments that are on their custodian's platform. We have addressed this conflict by embracing the open platform concept described in the Advisory Business section. As noted above, we use different brokers for municipal bonds. As described in the Methods of Analysis section, we cast a wide net in our screening process. We screen managers irrespective of vehicle, and this has resulted in our investing with different managers through different vehicles.

Soft Dollars

Paragon Capital Management does not use trading commissions (soft dollars) to pay for any products, services, or research. Some of the firms that we trade with provide economic, market, and stock research. Schwab also provides a range of information regarding compliance and practice management. The information that we receive from these sources is not dependent on commissions or commission rates paid. We pay for research services such as Bloomberg, Zacks, Value Line, and Morningstar as well as other sources and use primary sources for our resources. Therefore, our choice of broker is not affected by their "free" research.

Aggregating Trades

Paragon Capital Management will aggregate client trades where we can lower the cost of the trade, improve liquidity, or where a security is appropriate for more than one account and is available in size such as some municipal bond offerings. Thus, we will often aggregate trades where initiating a position or eliminating a position. When we are adjusting client portfolios, in response to a client portfolio review we will generally not aggregate trades, as the adjustments tend to be associated with client specific factors.

Review of Accounts

We periodically review client accounts. We review cash flows and margin balances daily. Portfolios and accounts are reviewed quarterly or when circumstances change significantly; for example, when markets or valuations change significantly.

A review consists of examining and analyzing a client's investment portfolio changes compared to the client's investment policy and strategy, the firm's investment outlook and strategy, and the portfolio benchmarks. There are two reviewers who are managing directors and two reviewers who are associates; the reviewers primarily counsel clients and are assigned 30 to 50 clients.

We prepare quarterly written reports that include the following:

- Memorandum describing and discussing your investment activity and results, our economic and investment outlook, and your allocation strategy, stock strategy, and bond strategy;
- Net Worth and diversification schedules;
- Account appraisal that includes the market value, cost basis of each position across your brokerage accounts;
- Performance reports which include quarter to date, year to date, and performance for multi-year periods.

We will also prepare reports at other times such as tax forecasts, income statements, and long term cash flow projections as well as special projects.

Client Referrals and Other Compensation

We do not receive any other compensation or economic benefits than the fees described under fees earlier in this brochure. We do not engage any other firms or people to provide us with referrals.

Custody

We are considered to have custody or access to client assets to the extent that we withdraw fees from client accounts, operate hedge funds where we have access to client funds, and act as trustees for clients. However, we use qualified custodians that will send you statements monthly. You should carefully review your statements, when you receive them.

Where we deduct fees, clients receive an invoice and fee calculation. A CPA registered with the PCAOB (Public Company Accounting Oversight Board) audits our hedge funds and clients receive audited financial statements within 120 days of the fund's year-end. In addition, another independent CPA does the bookkeeping and accounting for the funds. Where a Paragon Capital Management representative acts as a Trustee, we subject accounts to a surprise audit by a CPA registered with the PCAOB.

Investment Discretion

Paragon Capital Management accepts discretionary authority to manage our client's securities accounts on their behalf. Most of our clients delegate this trading authority to us. Discretionary authority means that we have a limited power of attorney over their brokerage account(s) to buy and sell securities. However, the securities that we buy and sell are consistent with a client's investment policy statement. Our goal is to help our clients achieve their goals. Therefore, the trust that you place in us by giving us a power of attorney over your account fits with our fiduciary responsibility to put your interest first.

Voting Client Securities

We vote proxies on behalf of most of our clients. Our goal is to add value to our client's investments by exercising their voting rights. We aim to achieve this goal by voting in favor of preserving and enlarging shareholder rights and power, maintaining and improving disclosure and accountability, limiting conflicts, balancing incentives, and minimizing expenses. While some proxies are not voted, generally, because of minimal holdings, proxies are collected, voted, and records of votes are retained for 5 years.

We withhold votes for Board members with excessive commitments or a record of poor performance; in addition, we vote against Boards and members with poor governance records and measures that limit the independence and diversity of the Board. We also vote against incentive plans that result in excessive compensation and shareholder dilution. In our goal of maximizing profits for our clients, we believe that fair and mutually beneficial relations with stakeholders such as employees, customers, and the communities in which the corporation operates increase the long-term value of the corporation.

Clients may direct us how to vote their shares in a particular solicitation. When a client is on the Board or in a policy-making executive position, we will vote their shares with the Board's recommendation.

We have a conflict of interest either when Paragon Capital Management has interests that may not be consistent with the best interests of our clients or when our clients have differing interests. For example, we could have a conflict if we had a contract to provide services to a company that would be maintained, if the company remained independent, while our client shareholders would benefit from the transaction. Alternatively we could have a conflict if an executive might benefit from voting against activist shareholders, while other investors might benefit from the activist's proposals. We resolve conflicts with Paragon Capital Management by first determining materiality; if our clients own less than 2% of the shares, we would consider the issue immaterial. Second, we would vote consistently with our policies, contact clients to determine how they want shares voted, or seek advice from an independent third party. If different clients have opposing interest, we vote their shares consist with their best interests.

Clients may receive our complete policies and procedures as well as how we have voted their proxies on request.

Financial Information

We do not require or solicit prepayment of fees six months or more in advance, so we are not required to provide any financial information on our firm.