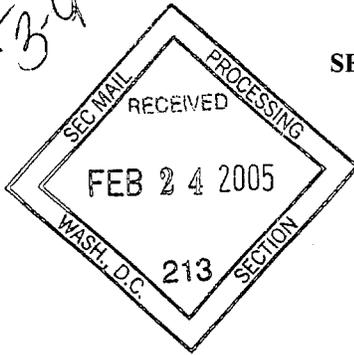


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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/04 AND ENDING 12/31/04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Paragon Advising Group, L.P.

OFFICIAL USE ONLY

FIRM ID. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

3200 Southwest Freeway, Suite 2350

(No. and Street)

Houston

Texas

77027

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Mr. Michael Chevalier-White

713-599-0111

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

UHY Mann Frankfort Stein & Lipp CPAs, LLP

(Name - of individual, state last, first, middle name)

12 Greenway Plaza, Suite 1202

Houston

Texas

77046

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

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FINANCIAL

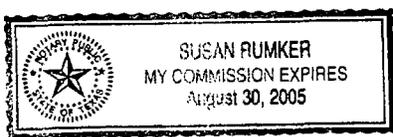
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SEC 1410 (06-02)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Michael Chevalier-White, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Paragon Advising Group, L.P., as of December 31, 2004, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Susan Rumker
Notary Public

Michael Chevalier-White
Signature
CEO, Paragon Advising Partners, LLC
General Partner of Paragon Advising Group, L.P.
Title

This report** contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

PARAGON ADVISING GROUP, L.P.

FINANCIAL STATEMENTS

DECEMBER 31, 2004

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Independent Auditors' Report

The Partners
Paragon Advising Group, L.P.
Houston, Texas

We have audited the accompanying statement of financial condition of Paragon Advising Group, L.P. (the "Partnership") as of December 31, 2004, and the related statements of income, changes in partners' capital and cash flows for the year then ended that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paragon Advising Group, L.P. as of December 31, 2004, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying information included in Schedules I and II is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY Mann Frankfort Stein & Lipp CPAs, LLP

Houston, Texas
February 11, 2005

PARAGON ADVISING GROUP, L.P.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2004

ASSETS	
Cash	\$ 94,894
Prepaid expenses	2,785
Other assets	<u>707</u>
TOTAL ASSETS	<u>\$ 98,386</u>
LIABILITIES AND PARTNERS' CAPITAL	
LIABILITIES	
Accrued expenses	\$ 10,737
PARTNERS' CAPITAL	
General partner	585
Limited partners	<u>87,064</u>
TOTAL PARTNERS' CAPITAL	<u>87,649</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 98,386</u>

See notes to financial statements.

PARAGON ADVISING GROUP, L.P.
STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2004

REVENUES	
Investment banking fees	<u>\$ 400,209</u>
EXPENSES	
Management fees	320,000
Facility usage fees	48,000
Audit fees	10,000
Regulatory fees	3,460
Charitable contributions	2,500
Professional fees	1,657
Other	3,314
TOTAL EXPENSES	<u>388,931</u>
NET INCOME	<u>\$ 11,278</u>

See notes to financial statements.
INFORMATION ON THIS PAGE IS CONSIDERED CONFIDENTIAL.

PARAGON ADVISING GROUP, L.P.
 STATEMENT OF CHANGES IN PARTNERS' CAPITAL
 YEAR ENDED DECEMBER 31, 2004

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Balance at January 1, 2004	\$ 509	\$ 75,862	\$ 76,371
Net income	<u>76</u>	<u>11,202</u>	<u>11,278</u>
Balance at December 31, 2004	<u>\$ 585</u>	<u>\$ 87,064</u>	<u>\$ 87,649</u>

See notes to financial statements.

INFORMATION ON THIS PAGE IS CONSIDERED CONFIDENTIAL.

PARAGON ADVISING GROUP, L.P.
STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Net income	\$	11,278
Changes in operating assets and liabilities:		
Prepaid expenses		280
Other assets		(605)
Accrued expenses		<u>10,095</u>
NET INCREASE IN CASH		21,048
CASH, beginning of year		<u>73,846</u>
CASH, end of year	\$	<u><u>94,894</u></u>

See notes to financial statements.

INFORMATION ON THIS PAGE IS CONSIDERED CONFIDENTIAL.

NOTE A - NATURE OF OPERATIONS

Paragon Advising Group, L.P. ("Paragon"), a Texas limited partnership formed in August 2001, is a limited broker-dealer registered with the Securities and Exchange Commission ("SEC") under Rule 15c3-3(k)(2)(i), which provides that Paragon will not maintain any margin accounts; will promptly transmit customer funds and deliver securities received; and does not hold funds or securities for, or owe money or securities to, customers. Paragon's general partner (with a 0.667% ownership interest) is Paragon Advising Partners, L.L.C.

Paragon, a Houston-based investment bank, focuses on mergers and acquisitions ("M&A") and financing transactions involving the purchase and sale of a company's equity or other securities. Paragon does not underwrite securities or participate in the brokerage of publicly traded securities. Paragon was granted membership in the National Association of Securities Dealers ("NASD") on February 8, 2002. At December 31, 2004, Paragon was registered as a limited broker-dealer in six states: Texas, Louisiana, Oklahoma, New York, Connecticut, and California.

The general partner and limited partners share in the profits and losses of Paragon based on their percentage ownership. All of the limited partners are officers and owners of the general partner.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States necessarily requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates.

Revenue Recognition: Revenues from Paragon's operations are recognized in the period the services are provided or upon closing of a M&A transaction. A non-contingent investment banking fee is recognized in the period the service is provided. A contingent investment banking fee is earned only if a M&A transaction closes and is recognized on the closing date of a M&A transaction.

Income Taxes: As a partnership, Paragon is not subject to federal or state taxes on its income. The partners include in their federal and state tax returns Paragon's results of operations. Accordingly, no provision for federal or state income taxes has been made for Paragon.

NOTE C - RELATED PARTY TRANSACTIONS

Paragon Advising Partners, L.L.C. charged Paragon a management fee totaling \$320,000 for the year ended December 31, 2004.

Paragon Advising, L.L.C., a sister company that provides transaction consulting and other strategic advisory services, charged Paragon fees under an expense agreement totaling \$48,000 for the year ended December 31, 2004. The expense agreement states that Paragon will pay Paragon Advising, L.L.C. a facilities usage fee of \$4,000 per month for the use of office space, telecommunications (telephone and internet), furniture for offices and conference room, office equipment, supplies for office equipment, and publications. The expense agreement is reviewed on an annual basis and can be terminated by either party.

NOTE D - NET CAPITAL REQUIREMENTS

Paragon is subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2004, Paragon had net capital of \$84,157, which was \$79,157 in excess of its required net capital of \$5,000. Paragon's net capital ratio was .13 to 1. The SEC requirements provide that partners' capital may not be withdrawn or cash distributions paid if certain minimum net capital requirements are not met.

**SUPPLEMENTAL INFORMATION PURSUANT TO RULE 17a-5
OF THE SECURITIES EXCHANGE ACT OF 1934**

PARAGON ADVISING GROUP, L.P.
 SCHEDULE I - COMPUTATION OF NET CAPITAL UNDER SEC RULE 15c3-1
 DECEMBER 31, 2004

NET CAPITAL		
Total partners' capital		\$ 87,649
Deductions for non-allowable assets:		
Prepaid expenses	\$ 2,785	
Other assets	707	3,492
	<u> </u>	<u> </u>
Net capital before haircuts on securities positions		84,157
Haircuts on securities		<u> </u>
Net capital		<u><u>\$ 84,157</u></u>
AGGREGATE INDEBTEDNESS		
Items included in statement of financial condition:		
Accrued expenses		<u>\$ 10,737</u>
Total aggregate indebtedness		<u><u>\$ 10,737</u></u>
COMPUTATION OF BASIC NET CAPITAL REQUIREMENTS		
Minimum net capital required (6 $\frac{2}{3}$ percent of total aggregate indebtedness)		<u><u>\$ 716</u></u>
Minimum dollar net capital requirement		<u><u>\$ 5,000</u></u>
Net capital requirement (greater of above two minimum requirement amounts)		<u><u>\$ 5,000</u></u>
Net capital in excess of required minimum		<u><u>\$ 79,157</u></u>
Excess net capital		<u><u>\$ 83,083</u></u>
Ratio: Aggregate indebtedness to Net capital		<u><u>.13 to 1</u></u>

NOTE: There are no material differences between the audited computation of net capital included in this report and the corresponding schedule included in Paragon's unaudited December 31, 2004 Part IIA FOCUS filing.

PARAGON ADVISING GROUP, L.P.
SCHEDULE II - INFORMATION RELATED TO EXEMPTION FROM SEC RULE 15c3-3
DECEMBER 31, 2004

The Partnership is exempt from the possession, control and reserve requirements pursuant to paragraph k(2)(i) of SEC Rule 15c3-3.



PARAGON ADVISING GROUP, L.P.

**INDEPENDENT AUDITORS' SUPPLEMENTARY
REPORT ON INTERNAL CONTROL**

DECEMBER 31, 2004

Independent Auditors' Report on Internal Accounting Control
Required by SEC Rule 17a-5 of the
Securities Exchange Act of 1934

The Partners
Paragon Advising Group, L.P.

In planning and performing our audit of the financial statements and supplementary schedules of Paragon Advising Group, L.P. (the "Partnership") for the year ended December 31, 2004, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Partnership including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Partnership does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Partnership in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons
2. Recordation of differences required by Rule 17a-13
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System

The management of the Partnership is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Partnership has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control or the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Partnership's practices and procedures were adequate at December 31, 2004, to meet the SEC's objectives.

This report is intended solely for the information and use of the Partners, management, the SEC, the National Association of Securities Dealers, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

VHY Mann Frankfurt Stein & Lipp CPAs, LLP

Houston, Texas
February 11, 2005