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SECURITIES AND EXCHANGE COMMISSION RECEIVED FEB 25 2010 BRANCH OF REGISTRATIONS AND EXAMINATIONS 05
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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER 8-53558

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 01/01/09 AND ENDING 12/31/09
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

Houston	Texas	77027
<small>(City)</small>	<small>(State)</small>	<small>(Zip Code)</small>

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 LLP

12 Greenway Plaza, Suite 1202	Houston	Texas	77046
<small>(Address)</small>	<small>(City)</small>	<small>(State)</small>	<small>(Zip Code)</small>

CHECK ONE:

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

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

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, 2009, 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 Dudley
Notary Public

Michael Chevalier-White
Signature
CFO, Paragon Advising Partners, L.L.C.
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, 2009

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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, 2009, and the related statements of operations, 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, 2009, 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 LLP

Houston, Texas
February 1, 2010

PARAGON ADVISING GROUP, L.P.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2009

ASSETS	
Cash	\$ 116,613
Prepaid expenses	2,976
Other assets	<u>342</u>
TOTAL ASSETS	<u>\$ 119,931</u>
LIABILITIES AND PARTNERS' CAPITAL	
LIABILITIES	
Accrued expenses	\$ 9,314
PARTNERS' CAPITAL	
General partner	738
Limited partners	<u>109,879</u>
TOTAL PARTNERS' CAPITAL	<u>110,617</u>
TOTAL LIABILITIES AND PARTNERS' CAPITAL	<u>\$ 119,931</u>

See notes to financial statements.

PARAGON ADVISING GROUP, L.P.
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 2009

REVENUES

Investment banking fees	\$ 27,518
Other income	167
TOTAL REVENUES	<u>27,685</u>

EXPENSES

Facility usage fees	89,200
Audit fees	7,000
Professional fees	6,955
Regulatory fees	5,137
Other	912
TOTAL EXPENSES	<u>109,204</u>

NET LOSS

\$ (81,519)

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, 2009

	<u>General Partner</u>	<u>Limited Partners</u>	<u>Total</u>
Balances at January 1, 2009	\$ 1,281	\$ 190,855	\$ 192,136
Net loss	<u>(543)</u>	<u>(80,976)</u>	<u>(81,519)</u>
Balances at December 31, 2009	<u>\$ 738</u>	<u>\$ 109,879</u>	<u>\$ 110,617</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, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

Net loss	\$ (81,519)
Changes in operating assets and liabilities:	
Prepaid expenses	(184)
Other assets	767
Accrued expenses	<u>(14,726)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(95,662)</u>
NET DECREASE IN CASH	(95,662)
CASH, beginning of year	<u>212,275</u>
CASH, end of year	<u><u>\$ 116,613</u></u>

See notes to financial statements.

INFORMATION ON THIS PAGE IS CONSIDERED CONFIDENTIAL.

PARAGON ADVISING GROUP, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

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. On February 8, 2002, Paragon was granted membership in the National Association of Securities Dealers ("NASD"), now known as the Financial Industry Regulatory Authority ("FINRA"). At December 31, 2009, 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 of America 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 an 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 an M&A transaction closes and is recognized on the closing date of an M&A transaction.

Income Taxes: As a partnership, Paragon is not subject to federal taxes on its income. The partners include in their federal tax returns Paragon's income or loss. Accordingly, no provision for federal income taxes has been made for Paragon. However, Paragon is subject to state income taxes, including the Texas margin tax.

Cash: Paragon maintains cash in demand deposit and savings accounts with banks which, at times, exceeds federally insured limits. Paragon has not experienced any losses associated with these accounts.

PARAGON ADVISING GROUP, L.P.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009

NOTE C - RELATED PARTY TRANSACTIONS

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 \$89,200 for the year ended December 31, 2009. The expense agreement states that Paragon will pay Paragon Advising, L.L.C. a facilities usage fee 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, at least, 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, 2009, Paragon had net capital of \$107,299, which was \$102,299 in excess of its required net capital of \$5,000. Paragon's net capital ratio was .09 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, 2009

NET CAPITAL		
Total partners' capital		\$ 110,617
Deductions for non-allowable assets:		
Prepaid expenses	\$ 2,976	
Other assets	342	3,318
Net capital before haircuts on securities positions		107,299
Haircuts on securities		-
Net capital		<u>\$ 107,299</u>

AGGREGATE INDEBTEDNESS

Items included in statement of financial condition:		
Accrued expenses		\$ 9,314
Total aggregate indebtedness		<u>\$ 9,314</u>

COMPUTATION OF BASIC NET CAPITAL
REQUIREMENTS

Minimum net capital required (6 2/3 percent of total aggregate indebtedness)		<u>\$ 621</u>
Minimum dollar net capital requirement		<u>\$ 5,000</u>
Net capital requirement (greater of above two minimum requirement amounts)		<u>\$ 5,000</u>
Net capital in excess of required minimum		<u>\$ 102,299</u>
Ratio: Aggregate indebtedness to net capital		<u>.09 to 1</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, 2009 Part IIA FOCUS filing.

PARAGON ADVISING GROUP, L.P.
SCHEDULE II - INFORMATION RELATED TO EXEMPTION FROM SEC RULE 15c3-3
YEAR ENDED DECEMBER 31, 2009

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.

FINANCIAL STATEMENTS

DECEMBER 31, 2009

PARAGON ADVISING GROUP, L.P.

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

DECEMBER 31, 2009

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, 2009, 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, 2009, to meet the SEC's objectives.

This report is intended solely for the information and use of the Partners, management, the SEC, the Financial Industry Regulatory Authority (formerly 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.

UHY LLP

Houston, Texas
February 1, 2010

PARAGON ADVISING GROUP, L.P.

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES
RELATED TO AN ENTITY'S SIPC
ASSESSMENT RECONCILIATION**

DECEMBER 31, 2009

***Independent Accountants' Report on Applying Agreed-Upon
Procedures Related to an Entity's SIPC Assessment Reconciliation***

To the Partners of
Paragon Advising Group, L.P.
Houston, Texas

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934, we have performed the procedures enumerated below with respect to the accompanying Schedule of Assessment and Payments to the Securities Investor Protection Corporation (SIPC) for the period from April 1, 2009 to December 31, 2009, which were agreed to by Paragon Advising Group, L.P. and the Securities and Exchange Commission, Financial Industry Regulatory Authority, Inc., and SIPC solely to assist you and the other specified parties in evaluating Paragon Advising Group, L.P.'s compliance with the applicable instructions of the Transitional Assessment Reconciliation (Form SIPC-7T). Paragon Advising Group, L.P.'s management is responsible for its compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7T with the respective cash disbursement records entries, noting no differences.
2. Compared the Total Revenue amounts of the audited Form X-17A-5 for the year ended December 31, 2009 less revenues reported on the FOCUS reports for the period from January 1, 2009 to March 31, 2009, as applicable, with the amounts reported in Form SIPC-7T for the period from April 1, 2009 to December 31, 2009, noting no differences.
3. Compared any adjustments reported in Form SIPC-7T with supporting schedules and working papers, noting no differences.
4. Proved the arithmetical accuracy of the calculations reflected in Form SIPC-7T and in the related schedules and working papers supporting the adjustments, noting no differences.
5. Compared the amount of any overpayment applied to the current assessment with the Form SIPC-7T on which it was originally computed, noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

UHY LLP

Houston, Texas
February 1, 2010

PARAGON ADVISING GROUP, L.P.
SCHEDULE OF ASSESSMENTS AND PAYMENTS
FOR THE PERIOD APRIL 1, 2009 TO DECEMBER 31, 2009

Determination of SIPC Net Operating Revenues:

Total Revenue (FOCUS line 12/Part IIA line 9)	\$ 27,639
Additions: None	-
Deductions: None	<u>-</u>
SIPC Net Operating Revenues	<u><u>\$ 27,639</u></u>

Determination of General Assessment:

General Assessment @ .0025	<u><u>\$ 69</u></u>
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Assessment Remittance:

Greater of General Assessment or \$150 Minimum	\$ 150
Less: Payment Made with Form SIPC-4 on January 9, 2009 to SIPC, Washington, D.C.	<u>(150)</u>
Assessment Balance Due	<u><u>\$ -</u></u>

**Reconciliation with the Partnership's Computation of SIPC
Net Operating Revenues for the Period April 1, 2009
through December 31, 2009:**

SIPC Net Operating Revenues as computed by the Partnership on Form SIPC-7T	\$ 27,639
SIPC Net Operating Revenues as computed above	<u>27,639</u>
Difference	<u><u>\$ -</u></u>