

Part 2A of Form ADV: Firm Brochure

FALMOUTH INVESTMENT COMPANY, INC.

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FORM ADV PART 2 A

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This brochure provides information about the qualifications and business practices of Falmouth Investment Company, Inc. Registration as an Investment Advisor does not imply that Falmouth Investment Company, Inc. or anyone associated with Falmouth Investment Company has achieved any level of skill or training.

If you have any questions about the contents of this brochure, please contact Falmouth Investment Company, Inc. at (216) 491-3990.

The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about Falmouth Investment Company, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

On July 28, 2010, the United States Securities and Exchange Commission published “Amendments to Form ADV” which amends the disclosure document that all advisors provide to clients as required by SEC rules. This brochure dated 3/28/2011 is a new document prepared according to the SEC’s new requirements and rules. As such, this document is materially different in structure and requires information that our previous brochures did not report.

In the future, this Item will only discuss specific material changes that are made to our Brochure and will provide clients with a summary of any such material changes. We will provide clients with a new Brochure as needed based upon changes or new information, as they occur.

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Item 4 Advisory Business

Falmouth Investment Company, Inc (“Falmouth”) is a registered investment advisor with its principal place of business in Shaker Heights, Ohio. Falmouth was founded in 1997. Terence C. Sullivan, Christine L. Jemison and Scott J. Swain are the owners of Falmouth Investment Company, Inc.

Falmouth acts as the manager member to investment funds (pools) primarily offered to families who are clients of a related party, Paragon Advisors, Inc. Falmouth provides investment advisory services to these investment funds. In all cases, Falmouth charges fees to each fund for providing the investment advisory services. Such services include formation and organization of the funds, drafting offering and subscription documents, performing due diligence on investment managers to be utilized by each pool, ongoing monitoring and performance evaluation of the managers, and annual accounting for each fund.

Falmouth manages approximately \$318,000,000 of client assets as of December 31, 2010 on a discretionary basis.

Item 5 Fees and Compensation

Falmouth generally charges a fee for the organization of each pool, typically around \$20,000. Falmouth then charges an annual asset management fee (“AMF”), paid quarterly in advance, for the ongoing services provided to each fund as described in Item 4. The annual AMF ranges from 0.4% to 0.8% of the net asset value of the individual investment funds. In some instances, this fee is calculated based on capital committed to the individual funds.

In some cases, Falmouth may defer fees until the entity has achieved profitability in a given year. This fee will not be incurred for funds which do not achieve appreciation in net asset value.

For certain funds, Falmouth charges a distribution fee when cash distributions exceed capital commitments. Once investors receive distributions equal to their capital commitment, all future distributions are split between the investors and Falmouth, with 2-2.5% of distributions going to Falmouth. The distribution fee replaces the AMF, which terminates when the distribution fee becomes effective.

The fee for each pool is based upon the amount of anticipated involvement that Falmouth may have in the investment. The fee agreement for each individual investment fund is disclosed in the respective funds’ private placement memorandum (“PPM”) which is provided to a client before an investment is made.

In addition to the AMF paid to Falmouth, the managers of the underlying investment funds will charge advisory and/or incentive fees to the funds in which Falmouth pools are invested. This results in clients paying two levels of advisory fees for the management of their assets in these pooled funds, one directly to Falmouth and one indirectly to the underlying investment fund manager. Fees received in advance would be prorated and refunded in the event Falmouth no longer provided investment advisory services.

Paragon Advisors, Inc. (“Paragon”), an affiliate of Falmouth, also receives fees for the preparation of the tax returns for each entity and receives reimbursement for the out-of-pocket expenses incurred directly related to each investment fund’s activities. Paragon receives compensation for tax return preparation and expense reimbursement after the services are performed or expenses incurred. Paragon’s services are provided at a cost at or below what a comparable third party would charge for similar services.

Item 6 Performance-Based Fees and Side-By-Side Management

As noted in Item 6, Falmouth charges management fees based upon capital commitments or assets under management, as described in the investment funds respective PPM. As mentioned in Item 6, certain partnerships defer payment of this asset management fee until years in which profits are achieved. In these instances, the deferred amounts accumulate until profits are attained. Falmouth is allocated income from the respective investment fund in years when the investment fund realizes profit. Fees under this method will not be collected for unprofitable investment funds.

Item 7 Types of Clients

Falmouth Investment Company's clients are investment funds (pools) generally set up as LLCs or partnerships primarily offered to Clients of Paragon Advisors, Inc, a related company.

Item 8 Methods of Analysis, Investment Strategies and Risk of Loss

Falmouth does not employ any one particular method of evaluating investments. Its evaluation techniques depend upon the investment being examined. The following are techniques that may be used to evaluate individual opportunities:

- Research reports from investment banking firms
- Research reports from brokerage firms
- General investment publications
- Meetings with money managers
- Meetings with general partners, sponsors or developers
- Meetings and phone calls with references for the sponsors of an investment (such as lawyers, accountants, bankers, etc.)
- Site and office visits
- Review and research regarding prior performance
- Discussions with contacts (developed in over 25 years in the financial advisory business) to evaluate the timelines and viability of an investment
- Continuing education required to maintain CPA designation

Falmouth's investment strategy varies by each investment fund. Each investment fund will invest in a selection of managers based upon the fund's investment strategy as noted in its private placement memorandum. Certain investment funds are classified as Hedge Funds, which are funds of funds which invest in strategies including long-short US equity, international long-short equity, market neutral and global macro strategies. Falmouth also has private equity funds of funds which employ various strategies including Middle Market Buyout, Real Estate, Technology/Venture, Mezzanine, Energy and Distressed investment strategies. The performance of these funds cannot be guaranteed and past performance is not indicative of future results.

Investing in securities involves a risk of loss to the client which the client should be ready to bear.

Investments in private equity funds are subject to restrictions on the re-sale of such investments. These investments are illiquid and may have no readily available market price. Contract terms of these vehicles may provide restrictions on when the underlying investments may be sold. These terms or other market or operating conditions on the underlying managers may cause the investments to be sold at lower prices than desirable due to liquidity needs, response to economic events or other factors.

Hedge Fund investments cannot ensure that a particular hedge strategy is appropriate, or that the risk is measured properly. These hedging transactions may result in poorer performance than non-hedge transactions, and could increase risk to investors.

Clients or prospective clients can learn more about the risks involved with the investment funds by referencing the investment funds PPM. These are available upon request by calling our office.

Item 9 Disciplinary Information

Falmouth Investment Company, Inc. has no history of disciplinary action.

Item 10 Other Financial Industry Activities and Affiliations

As described in Item 5, Falmouth is related to Paragon Advisors, Inc. through common ownership of both entities by Terence Sullivan, Christine Jemison and Scott Swain. Falmouth's investment funds are primarily offered to families who are clients of Paragon.

Paragon provides professional and administrative staff to Falmouth in support of Falmouth's investment advisory services, as described in Item 5. Paragon will be compensated for its services to such funds. These services are considered extraordinary and beyond the compensation paid by Paragon clients as part of the Core and other services.

Paragon provides tax preparation and consulting services to its clients in addition to its financial advisory services.

Item 11 Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Falmouth does not have any employees. Falmouth uses employees of Paragon Advisors, Inc. to perform its advisory services. Falmouth Investment Co., Inc. has adopted Paragon's Code of Ethics (the "Code") that obligates Paragon, and Paragon's employees, to have a fiduciary duty to place the interest of clients ahead of their own and the Company's interests. This Code of Ethics applies to all employees of Paragon working on Falmouth advisory clients. Employees must avoid activities, interests and relationships that might interfere with making decisions in the best interest of Advisory Clients.

As fiduciaries, all employees must at all times:

- Place the interest of Advisory Clients first;
- Avoid taking inappropriate advantage of their position;
- Conduct all personal securities transactions in full compliance with the Code, including both pre-clearance and reporting requirements;
- Refrain from revealing information relating to the investment intentions, activities or portfolios of Advisory Clients except to persons whose responsibilities requires knowledge of such information;
- Abide by the provisions for accepting and giving gifts, and abstain from soliciting gifts of any size under any circumstance;
- Not take any personal advantage of any opportunity properly belonging to any Advisory Client or the Company;
- Refrain from using undue influence to cause or attempt to cause any Advisory Client to purchase, sell or hold any security in a manner calculated to create any personal benefit to such employee.

Clients or prospective clients may obtain a copy of the Code by contacting Christopher J. Clair, Chief Compliance Officer, by email at cjc@paragonadvisors.net or by telephone at 216-491-3990.

Falmouth acts as manager member of investment funds formed to facilitate client investments in certain offerings that, due to size limitations, would not otherwise be accessible to Paragon clients. Paragon employees and affiliates of Paragon may invest in pools alongside clients. Terry Sullivan, Christine Jemison, Scott Swain and some other employees have invested their own money along the same economic terms as client investors. For the services provided to these pools, Falmouth will be compensated and will enjoy appreciation of its income to the same extent as the client. Paragon, its affiliates and its employees are prohibited from taking commissions or other compensation from the sponsors of investments in the funds. However, Paragon will make an effort to have the sponsors reimburse Paragon for the funds' out of pocket and other expenses incurred during the due diligence process.

Paragon or Falmouth may also negotiate fee reductions from the sponsors. These fee reductions are set up to benefit the investment fund or client directly, and are not paid to Paragon or Falmouth. Paragon or Falmouth will fully disclose any such client reimbursement arrangement.

From time to time, Terry Sullivan may serve on the Board of Directors of certain privately-held companies owned by entities in which Falmouth's investment pools are invested. Mr. Sullivan does receive compensation for his position on such boards. Currently, he serves on the Board of Directors of Stanton Carpet Holding Company and Spartan Food Holding Company, privately held companies owned by Linsalata Capital Partners V, LP, a private equity entity owned by two of Falmouth's investment funds.

Paragon or its employees may recommend to clients securities or investments that Paragon's employees own, purchase or sell for their own accounts. In addition, Mr. Sullivan, Ms. Jemison, Mr. Swain and employees may invest in the same funds recommended by Falmouth to its advisory clients. Such transactions are performed in accordance with Paragon's Insider Trading Policy and Code of Ethics, as described above. In addition, Paragon's Chief Compliance Officer is responsible for monitoring the personal securities transactions of its employees to assist in detecting and preventing breaches of the Company's fiduciary duties to its clients and to avoid potential conflicts of interest with its clients.

Item 12 Brokerage Practices

Falmouth has the discretionary authority to invest each fund's assets in managers which it deems appropriate in achieving the goals of each fund. In most cases, Falmouth discloses in advance what managers it expects to utilize in achieving its objectives. However, the final determination of the managers is made by Falmouth. In addition to selecting the managers, Falmouth determines how much of each fund's capital is allocated to the respective managers. Finally, in certain circumstances, Falmouth may select brokers and negotiate commission rates for transactions made within each fund based upon competitive commission rates Falmouth has negotiated with other brokers. Falmouth will select brokers best suited to the advisory client's needs based on the size of account, services provided and competitiveness of commissions.

One such broker that Paragon and Falmouth often recommend to clients is the Schwab Institutional Division of Charles Schwab & Co., Inc. ("Schwab"), a registered broker-dealer, and member SIPC. Paragon and Falmouth are independently owned and operated and not affiliated with Schwab. Schwab provides Paragon and Falmouth with access to its institutional trading and custody services, which are not typically available to Schwab retail investors. These services generally are available to independent investment advisors on an unsolicited basis, at no charge to them so long as at least \$10 million of the advisor's client assets is maintained in accounts at Schwab. Schwab's services include brokerage, custody, research, and access to mutual funds and other investments that are otherwise available only to institutional investors or would require significantly higher minimum initial investments.

For Paragon and Falmouth client accounts maintained in its custody, Schwab generally does not charge separately for custody but is compensated by account holders through commissions or other transaction-related fees for security trades that are executed through Schwab or that settle in Schwab accounts. Schwab also makes other products and services available to Paragon and Falmouth which may not benefit their client accounts. Some of these products and services assist Paragon and Falmouth in managing and administering client accounts. These include software and other technology that do the following: provide access to client account data (such as account statements and trade confirmations); facilitate trade execution; provide research, pricing information and other market data; and assist with back-office functions, recordkeeping and client reporting. Many of these services may be used to service a substantial number of Paragon's and Falmouth's accounts, including accounts not maintained at Schwab Institutional. Schwab also provides other services to Paragon and Falmouth intended to help manage and further develop their business enterprises. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. While as a fiduciary, Paragon and Falmouth endeavor to act in their clients' best interests, their recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to Paragon and Falmouth from the availability of some of the foregoing products and services and not solely on the nature, cost or quality of custody and brokerage services provided by Schwab, which may create a potential conflict of interest. However, Paragon and Falmouth do evaluate Schwab's overall services in comparison to other brokers from time to time, and have been pleased with the level of Schwab's brokerage services, as well as their competitive rate structure. Furthermore, the ability to access all client accounts custodied at Schwab through Schwab's website is a substantial benefit that allows Paragon and Falmouth to act on behalf of clients in a more efficient and effective manner.

Item 13 Review of Accounts

Falmouth Investment Company, Inc. reviews the financial matters of the investment funds it manages at least quarterly. The review process includes monthly bank account reconciliation, review of check registers, review of cash balances, review of correspondence from the managers in which the investment funds are invested, and review of financial statements for each pool.

Each pool is reviewed by several employees responsible for the monitoring and managing the funds. Mr. Sullivan (a Certified Public Accountant “CPA”) is involved in the global monitoring of each fund and acts as chief investment officer. In addition, Paragon provides the services of a second CPA, an investment professional, and additional professional and administrative staff who spend a majority of their time providing ongoing monitoring of the funds managed by Falmouth, including accounting and administrative services.

Falmouth provides reports on all funds it manages as frequently as quarterly. In some circumstances, when information is not received in a timely manner from underlying investment managers, the reports are provided less frequently, but at least annually. Investors are provided with annual tax reporting (schedule K-1) and an annual audited financial statement is available for each investment fund.

Item 14 Client Referrals and Other Compensation

Falmouth receives no compensation for client referrals.

Falmouth does receive some benefit from Schwab in the form of the support products and services its makes available to us. These products and services, and how they benefit us have been described above, in Item 12.

Item 15 Custody

Falmouth Investment Company is the manager member for several investment partnerships in which Paragon clients invest. As manager member, Falmouth has custody of all assets held by the investment fund including cash, bank accounts and securities. As manager member, Falmouth has signature authority over client advisory accounts.

Falmouth is required to provide audited financial statements to investors in these funds to clients by June 30th annually, beginning in 2011.

Paragon Advisors, an affiliate of Falmouth, does not directly have custody of Falmouth's advisory client accounts. However, Paragon financial advisory clients are substantial investors in the funds managed by Falmouth. In some cases, Paragon is deemed to have custody of its financial advisory clients' accounts.

Item 16 Investment Discretion

Falmouth has the discretionary authority to invest each fund's assets in managers which it deems appropriate in achieving the goals of each fund. In most cases, Falmouth discloses in advance what managers it expects to utilize in achieving its objectives. However, the final determination of the managers is made by Falmouth. In addition to selecting the managers, Falmouth determines how much of each fund's capital is allocated to the respective managers. Finally, in certain circumstances, Falmouth may select brokers and negotiate commission rates for transactions made within each fund based upon competitive commission rates Falmouth has negotiated with other brokers. Falmouth will select brokers best suited to the advisory client's needs based on the size of account, services provided and competitiveness of commissions.

Item 17 Voting Client Securities (“Proxy Voting”)

As manager member, Falmouth does have authority to vote proxies on behalf of advisory clients. Falmouth is responsible for receiving and voting proxies on behalf of the investment funds. Falmouth always acts in the best interest of its clients in voting of proxies, and votes all proxies with the expectation of maximizing client value.

Item 18 Financial Information

Falmouth Investment Company, Inc. has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients.