

PARAGON CAPITAL MANAGEMENT, LLC

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ADV PART II A BROCHURE

This ADV Part II is intended to provide information about how Paragon Capital Management operates and the types of services we offer. For more detail or answers to any questions you may have, please contact us via phone, mail or email.

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This brochure provides information about the qualifications and business practices of Paragon. If you have any questions about the contents of this brochure, please contact us at 913-451-2254 or email us at paragon@paragoncap.com.

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.

Dated: August 27, 2012

Summary of Material Changes

The annual summary describes any material changes that may have taken place since the last update of our ADV Part II brochure. This could consist of ownership changes, a change in the fee we charge our clients, any disciplinary events that may have taken place, or other changes of which you should be notified.

Our last brochure was dated March 31, 2011 and since that time we have had a change in the ownership interest of Paragon Capital Management LLC. Ethel Davis, a partner with a 2% ownership interest in the firm, has terminated her partnership interest as of August 24, 2012.

There have been no other changes. If you have any questions about this brochure or other matters, please feel free to contact us. You may also receive a copy of our ADV Part II A and B by requesting that a copy be sent to you either by mail or email. The ADV Part II A describes our business and how we operate; Part B gives you more detailed information about the principals/members of Paragon. You may also access our ADV Part II A online at www.sec.gov and both the ADV Part II A and B can be accessed online at ww.paragoncap.com.

Table of Contents

Summary of Material Changes	2
Paragon’s Advisory Business	4
Fees Charged and Other Compensation	5
Performance Based Fees and Side by Side Management	6
Types of Clients	7
Methods of Analysis, Investment Strategies, and Risk of Loss	7
Disciplinary Information	11
Other Industry Activities and Affiliations	11
Code of Ethics, Participation of Interest in Client Transactions, and Personal Trading	11
Brokerage Practices	13
<i>Soft Dollar Practices</i>	14
<i>Client Referrals</i>	16
<i>Directed Brokerage</i>	16
<i>Trade Aggregation</i>	17
<i>Trade Errors</i> :	17
Review of Accounts	18
Client Referrals and Other Compensation	18
Custody	19
Investment Discretion	19
Voting Client Securities	20
Financial Information	20

Paragon's Advisory Business

Paragon has been in business since October 1998. Craig Novorr and Howard Jacobson, principals at Paragon Capital, own a majority interest in the firm and all individuals named on the cover page are principals/members of the firm. We provide ongoing professional investment management services specializing in wealth accumulation and asset management services for high net-worth individuals and families, foundations, trusts, and estates. Our clients are located throughout the United States. Each portfolio is actively managed and invested in a combination of the following, taking into consideration the client's risk tolerance and goals:

- individual stocks
- exchange traded funds
- mutual funds
- US government, municipal, or corporate bonds
- preferred stock
- money market funds

We manage our clients' assets on a discretionary and the total fair market value of assets currently under management was \$329,640,540 as of February 28, 2011. On December 31, 2011 assets under management were \$315,688,295.

Fees Charged and Other Compensation

Paragon is an independent fee-only investment manager. Fees may be negotiated for larger accounts or accounts affiliated with existing clients but are generally charged in accordance with the following fee schedule:

Annual Charge Based on Assets under Management:

- 1.25% (0.0125) on the first \$500,000
- 1.00% (0.0100) on the next \$500,000
- .80% (0.0080) on the next \$3,000,000
- .60% (0.0060) on everything over \$4,000,000

The minimum annual fee is \$2,500 per household.

The fee calculation is based on the fair market value of the account(s) as of the end of each quarter. Fees paid to us for management services are paid in arrears quarterly and not in advance of services, and they are deducted directly from our client's account(s) unless other arrangements have been made. Our fee calculation is based on assets under management in each client account. We do not charge fees based on performance.

Additional Fees:

Additional fees could consist of:

- trade commissions: broker charges when buying or selling securities
- prime broker fees: non custodial fees on fixed income trades
- mutual fund fees: various fees charged by the mutual fund

- exchange traded funds: various fees charged by the fund

Paragon's only fee is from the management of assets and we do not receive any of the above mentioned additional fees. If you have any questions concerning the fees charged and how they are calculated, please contact us.

Fees for Serving as Investment Advisor on Certain Trusts

We may also serve as investment advisor on certain trusts requiring a corporate trustee. Fees may differ from our fee schedule based on factors such as the size of account and the corporate trustee selected to administer the trust.

Termination of Advisory Services:

Our services may be terminated without notice at the will of the client or with two weeks notice from Paragon. Fees will be charged through the date of termination. If fees are ever charged in advance and our services are terminated, the fees will be refunded on a pro-rata basis.

Performance Based Fees and Side by Side Management

Paragon does not charge performance based fees or practice side by side management.

Types of Clients

Our services are available to the following types of clients:

- high net-worth individuals
- foundations
- trusts
- estates

Our focus is on our clients' individual goals and risks in addition to their current and future needs. Clients can also set up foundations that will be managed towards meeting their goals for current and future charitable contributions. Our account minimum is \$500,000 but smaller accounts may be accepted based on several factors including the client relationship.

Methods of Analysis, Investment Strategies, and Risk of Loss

Our clients are never placed in a predetermined investment solution. We are structured to provide full customizable portfolios based on your unique needs.

We utilize a combination of stock screens, valuation models and fundamental research when creating our portfolios. Our fixed income approach uses both taxable and tax-free bond issues depending on the type of account and the tax implications for the client.

Methods of Analysis:

Paragon uses a fundamental analysis of a company when analyzing stocks. This is one of two primary methods for analyzing a stock's potential return. It involves assessing a corporation's financial history and current standing including earnings, sales, and management. It also involves gauging the strength of the corporation's products or services in the marketplace.

A fundamental analyst uses these details as well as the current state of the economy to assess whether the stock is likely to increase or decrease in value in the short and long term. We also decide whether its current price is an accurate reflection of its value. We focus on a company's potential for maintaining value over long periods of time.

Sources of Research Information

Resources used when researching information

- Financial analysts for in depth research on various companies, industries, and sectors.
- Public research reports by various businesses and analysts
- Annual reports and prospectuses
- Company press releases
- Software that enhances our ability to research equity and fixed income securities

A client's tolerance for market risk and their long term goals will determine the allocation of their investments among stocks, bonds, and cash. By offering to meet with our clients on a regular basis, we stay informed about changes in lifestyles or other events that may cause their goals to change over time. In addition, we can communicate with other professionals being used

by our clients so their overall financial strategy can be developed. Those professionals often include the client's CPA, attorney, financial planner, and/or insurance agent/broker.

Investment Strategies:

Equity (Stock Selection)

Paragon believes value can be added to your portfolio through investing in individual stocks. We use a disciplined investment approach by utilizing both GARP (Growth at a Reasonable Price) and a bottom up analysis of companies. The bottom up approach means we structure your portfolio based on companies we believe will achieve the best performance. Growth at a Reasonable Price means we look for companies that have a history of growing their earnings at a rate greater than the overall market but whose stock price is still undervalued.

Sell Strategy: We do not sell on price appreciation but primarily when the reasons for buying the stock are no longer valid or the risks begin to outweigh the rewards.

Fixed Income (Bonds)

Our fixed income selection is based on generating the highest possible current income from a portfolio of quality debt instruments. We invest in bonds rated "investment grade" or above and ladder the bonds so they mature over a period of years. The types of fixed income securities we invest in are U.S. Treasury's or agencies, corporate bonds, municipal bonds, and preferred stock. Our priorities when selecting fixed income securities are the generation of income and the preservation of capital.

Cash:

Cash is held in a money market fund available through the custodian. We typically have several choices of the type of fund to use and pick one most appropriate for our clients. Funds are available for taxable or tax exempt investing. We monitor the rates paid by these funds and the types of investments held by each fund.

Long Term Strategy:

Paragon does not believe that anyone can or has successfully timed the market over a long period of time. We do believe that sticking to a sound investment strategy for the long haul helps to ensure your success.

Risk of Loss:

Investing in the stock and bond markets carries with it a risk of loss of your investment through a decline in the fair market value of the security. Paragon uses a conservative approach when selecting investments for their clients. Our goal is to reduce market risk to the extent possible. We continually analyze companies, the sector they're in, the current state of the economy, and the type of securities purchased. This is weighed against our client's goals and risk tolerance to determine which securities should be held in their account(s). We meet with our clients on a regular basis to review the performance in their account(s), explain our investment strategy, and

assess any changes in their goals or risk tolerance. If needed, their investments will be adjusted to accommodate those changes.

Disciplinary Information

Our brochure is intended to include information that our clients and prospective clients need to know in order to make informed decisions about their selection of an investment manager. Part of that information includes any material disciplinary actions that may have been taken against any of our portfolio managers within the last ten years. Disciplinary actions include convictions for theft, fraud, bribery, perjury, forgery, counterfeiting, extortion, and violations of securities laws by any of our portfolio managers or executives. None of our portfolio managers have had a legal or disciplinary event occur within the last ten years or at any time previous to that.

Other Industry Activities and Affiliations

Another potential conflict could be an affiliation with another financial entity. Those entities could include but are not limited to brokers, financial planners, other investment advisors and banks. Paragon is not affiliated with, nor do we participate in, any financial activity with another firm or person in the financial industry.

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

Paragon has a fiduciary obligation to act in the best interests of its clients and to place its clients' interest before its own. These fiduciary duties include:

- advice that is suitable for the client

- full disclosure of all material facts
- any actual or potential conflicts of interest
- utmost and exclusive loyalty and good faith
- best execution of client transactions
- the exercise of reasonable care to avoid misleading clients

Paragon is committed to the highest ethical standards and to conducting its business with the highest level of integrity. All associates must also conduct their affairs with uncompromising honesty and integrity and extend that same level of honesty and integrity to their clients. A copy of the Code of Ethics will be provided to any client upon request.

Participation or Interest in Client Transactions

We do not sell products or recommend to clients that they purchase a product in which we would have any material financial interest. In addition, we do not recommend that a client purchase an interest in any partnership in which we would act as a general partner.

Personal Trading

Partners and staff may trade in the same securities as our clients. This could potentially create a conflict of interest by:

- taking an investment opportunity from a client for the benefit of the employee's own personal portfolio
- taking advantage of an investment opportunity for a personal or family account based on information not available to the general public

- **frontrunning:** using client assets to have an effect on the market which is used to the employee's benefit

We review all personal trades made by the partners and staff at least quarterly and all trades made through the Paragon trading platform are reviewed monthly. Those reviews are conducted to ensure that the prices paid for securities bought or sold by Paragon partners or staff does not in any way disadvantage our clients and there is no favoritism of one client over another.

Brokerage Practices

Selection of Brokers

Paragon uses its discretion in selecting brokers used to execute trades in our clients' accounts. We select which broker to use based on the type of security being traded among other factors. Our focus is to obtain best execution taking into account:

- Competitiveness of price
- the brokers reputation, facilities, reliability and financial responsibility
- their ability to execute, clear, and settle trades in a timely manner (buy and sell securities for your account)
- availability of investment products (stocks, bonds, exchange-traded funds, mutual funds)
- ability to facilitate transfers and payments to and from accounts (wire transfers, check requests, bill payments)
- availability of investment research, tools, and related brokerage services
- prior service to us and other clients

We review our selection of brokers at least quarterly to ensure that they have the ability to provide best execution for our clients. We are not affiliated with any broker or dealer.

In choosing a broker-dealer or negotiating commission rates, Paragon:

- has no obligation to seek competitive bids or the lowest commission cost to the client
- determines that the products, services, and prices provided by the broker-dealer are reasonable relative to those charged by typical securities firms
- uses reasonable efforts to cause transactions to be executed at a discount to standard retail rates
- determines that the commission rate charged is reasonable in relation to the total quality and reliability of the brokerage, research, and custodial services that Paragon can access

Soft Dollar Practices

Brokers or other third parties receive fees from clients when trades are placed or other services provided. They promote the referral of clients to their firms by providing research or other products or services to investment advisory firms. This is referred to as “soft dollar practices” and could create a conflict of interest if we directed clients to a particular firm in order to receive various benefits.

The custodian we recommend for our clients is Schwab Institutional. Products and services offered by them assist us in managing our clients’ accounts. This includes software and other

technology that provides access to client accounts for purposes such as trading and account administration. Schwab offers these products and services to investment advisory firms at no charge as long as a minimum of \$10 million of our client assets are held in accounts at Schwab. This minimum may give us an incentive to recommend that you maintain an account with Schwab based on our interest in receiving Schwab's services that benefit our business rather than based on your interest in receiving the best value in custody services and the most favorable execution of your transactions. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interests of our clients. Our selection is primarily supported by the scope, quality, and price of Schwab's services and not Schwab's services that benefit only us. We have over \$300 million in client assets under management and do not believe that recommending our clients to collectively maintain \$10 million of those assets at Schwab in order to avoid paying Schwab quarterly service fees presents a material conflict of interest. Any research reports or other services received by us are used for the benefit of all our clients and aren't limited to certain accounts.

Services provided by Schwab that benefit us but may not directly benefit you are:

- Access to client account data
- The facilitation of trade execution and the ability to aggregate trade orders for multiple client accounts
- Pricing and other market data
- The facilitation of payment of our fees from our clients' accounts
- Assistance with back-office functions, recordkeeping, and client reporting

Services that generally benefit only Paragon:

- Educational conferences and events

- Consulting on technology, compliance, legal, and business needs
- Publications and conferences on practice management and business succession

The availability of these products or services benefits us because we do not have to produce or purchase them.

Client Referrals

Investment advisers may pay for the referral of new clients as a way to increase their client base and assets under management. Schwab Advisor Network has a referral service in place that is designed to help investors find an independent investment advisor. A Schwab representative may determine that some of their clients could benefit from the investment advisory services offered by Paragon. If Schwab refers clients to us and it results in new business, they will receive a fee. Our arrangement with Schwab is to pay them a referral fee, on a quarterly basis, for as long as we retain the client. The referral fee in no way increases the fee paid to us by our client and there is no additional charge paid by our client because of the referral arrangement. If Paragon would choose to move those clients to a different custodian, we would be required to pay Schwab an additional charge. This could give us an incentive to retain our clients at Schwab. We are neither affiliated with Schwab, nor are they supervised by us.

Directed Brokerage

We select the brokers used to place trades in our clients' accounts. The selection is based on several key issues such as quality, price, and speed in executing the trade. Occasionally, a client may wish to direct their trades through a particular broker. If a client directs a trade, our ability

to achieve best execution may be wholly or partially limited by the directed brokerage arrangement including our inability to obtain the best price or the most favorable execution.

Trade Aggregation

Our policy, when several accounts are trading the same security at the same time, is to aggregate the trade to be placed with the broker. This ensures that all accounts will have paid or received the same price when trading in the same security. Large blocks of trades or the purchase or sell of thinly traded securities are closely monitored to ensure that our clients receive the best possible execution. We do not limit the allocation of any security to particular accounts or disadvantage any client account over another. Our aggregation policy is in place to ensure that investment opportunities are allocated to our clients on an equitable basis. We monitor all trading activity to make sure that any trades placed by partners or staff would not negatively impact the price at which a client would trade the same security.

Trade Errors:

As a fiduciary, we have the responsibility to effect orders correctly, promptly and in the best interests of our clients. In the event any error occurs in the handling of any client transactions, due to our actions, or inaction, or actions of others, our policy is to seek to identify and correct any errors as promptly as possible without disadvantaging the client or benefiting Paragon Capital Management in any way.

If the error is the responsibility of Paragon Capital Management, any client transaction will be corrected and Paragon Capital Management will be responsible for any client loss resulting from an inaccurate or erroneous order. Any gain resulting from a trade error would be retained by the client.

Review of Accounts

Our clients receive a quarterly performance report prepared by us. These reports are reviewed by two partners prior to mailing to ensure us that all accounts are invested properly and the data is accurate. We encourage meetings with our clients on an annual or more frequent basis so we can discuss the investments in their account, their risks and goals, and any lifestyle changes that may have taken place. Clients also receive a monthly statement from their custodian and we encourage them to review all of their reports for accuracy, compare to our reports on a quarterly basis, and call us with any questions.

Client Referrals and Other Compensation

One method used by investment advisers to increase their client base is to pay for the referral of new clients. See *Client Referrals* under **Brokerage Practices** to review our referral arrangement with Schwab. We also have a referral agreement in place with other outside solicitors.

Whenever a solicitor meets with a prospective client, they are given written information disclosing the arrangement which is signed by the prospect and the solicitor. If a registered solicitor refers clients to us and it results in new business, the solicitor will then receive a fee. The referral fee in no way increases the fee paid to us by our client and there is no additional charge paid by our client because of the referral arrangement. We are not affiliated with any solicitor and they are not supervised by us.

Custody

All accounts managed by us are held by a qualified custodian such as Schwab or a bank. Non bank custodians such as Schwab do not charge you separately for custody services but are compensated by charging you commissions or other fees on trades that it executes or that settle into your account. Banks do not charge a fee for placing trades but typically charge a custody or trustee fee. Paragon is independently owned and we are not affiliated with any of the custodians or banks. An account will be opened by you directly with the custodian or bank but we can assist you in that process. Your assets will be held in the account and the custodian or bank will buy or sell securities based on instructions from us. You will receive statements, directly from the custodian, listing all transactions that have occurred in your account and all securities held by your account. We encourage you to review those statements carefully as soon as they are received and call us if you have questions. Paragon will send you quarterly performance reports which should be compared to the custodian's or bank's statements to ensure that all positions held and transactions posted are correct.

Investment Discretion

Paragon has investment discretion for all client accounts. Occasionally, a client will request that a specific security be purchased or sold. We must be directed, in writing by our client, before any client directed trade can take place. Trades directed by our clients could change the performance of the account or be in conflict with the client's goals and risks. Directed trades could also result in higher trading commissions that are paid by the client when the trade is placed.

Voting Client Securities

Paragon votes all proxies on behalf of our clients in a manner that is in the best interest of our clients. We are not affiliated in any way with any publically traded company and are therefore, unlikely to have a conflict of interest. If such a conflict exists, we would cede the voting authority back to our client. The client retains the right to vote all proxies and have the custodian forward all proxy material directly to them instead of Paragon. Our clients may request from us, a copy of our proxy voting policy or request information on how we voted a particular proxy.

Financial Information

Paragon does not collect fees in advance, has never declared bankruptcy, and in no way would our financial condition impair our ability to meet any commitments to our clients.