

Part 2A of Form ADV: Firm Brochure

PARAGON ADVISORS, INC.

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FORM ADV PART 2 A

MARCH 29, 2016

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

If you have any questions about the contents of this brochure, please contact Paragon Advisors, 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 Paragon Advisors, Inc. is also available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 Material Changes

Paragon Advisors, Inc. has experienced no material changes since the last annual update of our brochure on March 30, 2015.

Item 3 Table of Contents

1. Cover Page	1
2. Material Changes	2
3. Table of Contents	3
4. Advisory Business	4
5. Fees and Compensation	5
6. Performance-Based Fees and Side-by-Side Management	7
7. Types of Clients	8
8. Methods of Analysis, Investment Strategies and Risk of Loss	9
9. Disciplinary Information	11
10. Other Financial Industry Activities and Affiliations.....	12
11. Code of Ethics, Participation or Interest in Client Transactions and Personal Trading	13
12. Brokerage Practices	15
13. Review of Accounts	17
14. Client Referrals and Other Compensations	18
15. Custody	19
16. Investment Discretions	20
17. Voting Client Securities (“Proxy Voting”).....	21
18. Financial Information.....	22

Item 4 Advisory Business

Paragon Advisors, Inc (“Paragon”) is a registered investment advisor founded in 1996, with its principal place of business in Shaker Heights, Ohio. Paragon’s shareholders are Terence C. Sullivan and Christine L. Jemison.

Paragon is a fee-based multi-family office and financial advisory firm specializing in comprehensive and confidential management of family wealth. Paragon’s mission is to organize and centralize client financial matters, provide ongoing review and monitoring of client financial assets, develop wealth maximizing and tax minimizing strategies, and lastly, act as the catalyst to implement financial plans in an efficient and cost effective manner.

Paragon’s clients are typically individuals with net worth in excess of \$10,000,000. Due to the large net worth and the varying degrees of complexity for each client, the services provided are tailored to each client’s particular circumstances. Paragon provides a core group of services to clients, which include:

- Overall organization and monitoring of family financial matters
- Tax and cash flow planning
- Asset allocation analysis and recommendation
- Estate and trust planning (across generations)
- Insurance analysis and recommendations on life, property and liability coverage
- Investment review, counseling and recommendation
- Review and recommendation of traditional and alternative investment managers
- Tax return preparation
- Quarterly investment performance monitoring
- Other services tailored to each client’s individual family needs

Other services arise out of client specific needs and may include assisting in administering estates, trusts, foundations and other entities. Paragon may also be engaged by its clients for special projects such as organizing family partnerships, constructing and monitoring laddered bond portfolios, bill paying, assisting in the negotiation of the sale or purchase of a business, and other related services.

Paragon manages approximately \$403,000,000 of client assets as of January 1, 2016. This includes assets Paragon manages on a discretionary basis of approximately \$154,000,000.

Item 5 Fees and Compensation

Paragon fees

For most clients, Paragon charges an annual retainer for the core services. The fee is tailored to and based upon the complexity of each client's financial situation. Consideration is given to the level of income, assets owned, the composition of the asset mix, and the level of service to be performed by Paragon. The annual retainer fees for the core services are negotiated with each client at the beginning of the client relationship. We will monitor the retainer amount at least annually to ensure that it is appropriate for the level of service. If, at any point, we find our time commitment to a client's situation is significantly over or under the retainer, we will address the retainer with the client to determine if an adjustment or special bill is warranted. The retainer fee is generally billed quarterly in advance, and out of pocket expenses incurred on behalf of clients are billed quarterly in arrears.

The retainer is designed to cover all the normal, ongoing elements of our services. If we encounter a specific project beyond the scope of the services outlined above, we would bill that time separately at our standard hourly rates, ranging from \$50-\$325 per hour.

Although not typical, some clients are billed based on actual time incurred at the standard hourly rates. These fees are generally billed at least quarterly in arrears.

All prepaid fees are refundable and advisory engagement agreements are terminable at will by either party upon reasonable notice. The amount of any refund will be calculated on a pro-rata basis as of the date of the termination of the client relationship.

Third party fees (Money manager fees, brokerage fees, and transaction costs)

Paragon recommends third party money managers for its clients. These money managers will generally charge a separate fee based a percentage of assets under management.

Clients will also incur brokerage fees and transactional costs charged by the qualified custodian used for their accounts, as well as fees charged by mutual funds and exchange traded funds (ETF's) held in their accounts.

All of these fees are separate from the retainer charged by Paragon. They are calculated by the money managers and brokerage firms, and are debited directly out of client accounts.

Falmouth Investment Company fees

Falmouth Investment Company, Inc. ("Falmouth") is an affiliate of Paragon through the common ownership of both entities. Falmouth forms private investment companies ("Funds") and serves as manager member to such entities. The funds are offered as investment opportunities to Paragon clients and are formed by pooling client assets, typically in an LLC operating like a partnership. This provides Paragon clients an opportunity to access investment managers (underlying investment funds) who have high minimum investments, which may not be accessible to clients individually. Falmouth provides investment advisory services to the investment funds, including forming and organizing the pool of funds, performing due diligence and ongoing monitoring of the underlying investment funds and managers, evaluating the managers, and annual accounting for each fund. Clients who invest in any of the funds managed by Falmouth will incur fees charged by Falmouth for its investment advisory services.

Fees charged to the funds for Falmouth's advisory services may vary, depending on the type and structure of each fund. The fee for each pool is based upon the amount of anticipated involvement that Falmouth may have in the investment.

- In all cases, Falmouth 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.

Fees are billed to the funds in advance, and the fee agreement for each individual investment fund is disclosed in the respective funds' private placement memorandum ("PPM"), which is provided to an investor 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 investors 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 are refundable. The amount of any refund will be calculated on a pro-rata basis as of the date of the termination of the advisory relationship.

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

Paragon does not charge performance-related fees (fee based upon gains of a client portfolio).

Falmouth charges management fees based upon capital commitments or assets under management, as described in the investment funds' respective PPM. Please see Item 5 for a detailed description of the asset management fees set up for its funds. 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 earned under this method will not be collected for unprofitable investment funds.

Item 7 Types of Clients

Paragon provides advisory services to high net worth individuals and their families. The clients may form entities, including family partnerships, investment companies, trusts, estates, charitable organizations, corporations or other business entities. These clients typically have net worth in excess of \$10,000,000.

Paragon also provides professional and administrative services to Falmouth Investment Company.

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

Paragon does not employ any one particular method of evaluating investments. Our 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
- Use of analytical software, such as Pertrac Analytic Platform and Reporting Studio & Morningstar Principia
- 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, CFP or other professional designations

Investing in securities involves risk of losses that clients should be prepared to bear.

Paragon provides investment analysis based upon individual client needs and expectations. We employ an open architecture approach to investing and will prepare and review asset allocation analysis and make recommendations to the client tailored to the client's situation. We will discuss the asset allocation and corresponding investment recommendations with the client at least annually, and as often as quarterly. Final investment decisions are approved by the client. Depending upon the client's investment strategy, Paragon may provide advice regarding:

- Equity securities in US and foreign companies
- All types of debt instruments (mortgage, corporate and non-corporate, performing and non-performing loans, secured and unsecured loans and notes, US Government and municipal bonds)
- Warrants and options
- Futures contracts
- Mutual fund shares and exchange-traded funds
- Certificates of deposit and commercial paper
- Real estate investments
- Commodity-linked investments
- Private investment vehicles including hedge funds, private equity investments, arbitrage funds or commodity funds
- Purchase or sale of a business, in an advisory role.
- Paragon does not provide investment banking services.

Investment advice provided by Paragon may not produce the returns expected by clients. Material risks in investments in securities include market risk, inflation risk, interest rate risk, currency risk, political and economic risk, credit risk and liquidity risk.

We will discuss the risks associated with a specific investment with the client and consider them in our analysis when advising a client on investment decisions.

Item 9 Disciplinary Information

Paragon Advisors, Inc. has no history of disciplinary action.

Item 10 Other Financial Industry Activities and Affiliations

Paragon provides tax return preparation and consulting for most clients in addition to financial advisory services.

As described above in Item 5, Paragon is related to Falmouth Investment Company, Inc. through common ownership of both entities by Terence C. Sullivan and Christine L. Jemison. Falmouth acts as the manager member of investment funds. Falmouth creates and monitors such investment funds on behalf of Paragon clients who choose to invest in such entities.

The funds managed by Falmouth invest in a wide range of investment vehicles, including hedge funds (traditional long/short, international, arbitrage, distressed securities, mortgage-backed securities, special situations), real estate investments, debt instruments, private equities, and commodities, among others.

Falmouth will be compensated for its services to such funds as described in Item 5. These services are considered extraordinary and beyond the compensation paid by Paragon clients as part of the core and other services.

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

Code of Ethics

Paragon Advisors, Inc. has adopted a Code of Ethics (the “Code”) that obligates Paragon and its employees to 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. 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 Susanne M. Powers, Chief Compliance Officer, by email at spowers@paragonadvisors.net or by telephone at 216-491-3990.

Participation or Interest in Client Transactions and Personal Trading Procedures

As described in Item 5, Falmouth Investment Company, a related entity, 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 may invest in these investment funds alongside clients. Terry Sullivan, Christine Jemison 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.

Falmouth is currently invested in several private equity funds in which one of the General Partners is a Paragon client. Terry Sullivan is also a direct investor in a private equity fund in which the General Partner is a Paragon client. Further, Mr. Sullivan is an investor in two business ventures alongside two of Paragon’s clients and other investors.

Paragon employees may recommend to clients securities or investments that they own, purchase or sell for their own accounts. In addition, Terry Sullivan and Christine Jemison and other Paragon employees

may invest in the same funds recommended by Falmouth to its advisory clients. Mr. Sullivan is an investor in a preferred stock that was also presented to Paragon clients as an investment opportunity. This potential conflict of interest was disclosed to clients, and the decision as to whether or not to invest in this security was left up to each client.

As part of Paragon's Code of Ethics, all employees are required to disclose such investments and all reportable transactions to the Chief Compliance Officer (CCO). The CCO reviews and monitors these transactions on a regular basis in order to detect and prevent breaches of fiduciary duty, and to avoid potential conflicts of interest in connection with employees' personal trading activities. Furthermore, Paragon's Code of Ethics requires that employees obtain pre-approval from the CCO before purchasing any security of which an advisory client is considered an insider, or any security in a private placement, including investments in investment funds managed by Falmouth.

If the CCO determines that an employee has committed a violation of the Code, the Company may impose sanctions and take other actions as it deems appropriate, including a letter of caution or warning, suspension of personal trading privileges, suspension or termination of employment or monetary fine.

Item 12 Brokerage Practices

Selection of brokers

In limited cases, Paragon has the latitude to select brokers and negotiate commissions on behalf of its clients without specific client consent. Brokers used in such transactions are generally the brokers with whom the accounts are custodied. Paragon will negotiate fees with individual brokers based upon competitive commission rates that Paragon has negotiated with other brokers.

In most situations, Paragon does not have the authority to determine the broker used for client transactions. Typically, Paragon's clients have pre-established broker relationships and/or specifically direct the broker to be used. With such an arrangement, the client's direction to use a particular broker may limit Paragon's ability to achieve best execution and negotiate commissions with other brokers on the client's behalf. Paragon does recommend brokers to clients where appropriate. Paragon will recommend a broker best suited to the client's needs based on the size of account, breadth of services provided and available investment products, reputation, financial strength and stability, and competitiveness of commissions.

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 limited 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 and qualified custodian that Paragon often recommends to clients is Charles Schwab & Co., Inc. (Schwab), a registered broker-dealer, member SIPC. Paragon and Falmouth are independently owned and operated and not affiliated with Schwab. While Paragon may recommend that clients use Schwab as custodian/broker, the client will decide whether to do so and will open an account with Schwab by entering into an account agreement directly with them. Paragon does not open the account for the client, although we will assist clients in doing so.

Brokerage Costs

For Paragon 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. In addition to commissions and transaction-based fees, Schwab charges a flat dollar amount as a "prime broker" or "trade away" fee for each trade executed by a different broker-dealer but where securities bought or the funds from the securities sold are deposited (settled) in a Schwab account. These fees are in addition to the commissions or other compensation paid to the executing broker-dealer. Because of this, in order to minimize trading costs, Paragon uses Schwab to execute trades in client Schwab accounts. Having Schwab execute the trades is consistent with Paragon's duty to seek "best execution" of client trades. Best execution means the most favorable terms for a transaction based on all relevant factors.

Products and services available from Schwab

Schwab Advisor Services is Schwab's business serving independent investment advisory firms like Paragon. They provide us and our clients with access to its institutional brokerage services (trading, custody, reporting and related services), many of which are not typically available to Schwab retail customers. Schwab also makes available various support services. Some of these services help Paragon manage or administer clients' accounts, while others help us manage and grow our business. Schwab's support services are generally available on an unsolicited basis and at no charge to Paragon. Following is a more detailed description of Schwab's support services:

Services that benefit clients

Schwab's institutional brokerage services include access to a broad range of investment products, execution of securities transactions, and custody of client assets. The investment products available through Schwab include some to which Paragon might not otherwise have access or that would require a significantly higher minimum initial investment by clients.

Services that may not directly benefit clients

Schwab also makes available other products and services that benefit Paragon but may not directly benefit client accounts. These products and services assist us in managing and administering clients' accounts. They include investment research, both Schwab's own and that of third parties. Paragon may use this research to service all or a substantial number of clients' accounts, including accounts not maintained at Schwab. Schwab also makes available software and other technology that:

- Provide access to client account data (such as duplicate trade confirmations and account statements)
- Facilitate trade execution
- Provide pricing and other market data
- Facilitate payment of our fees from our clients' accounts
- Assist with back-office functions, recordkeeping, and client reporting

Services that generally benefit only Paragon

Schwab also offers other services intended to help Paragon manage and further develop our business. These services include:

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

Schwab may provide some of these services itself. In other cases, it will arrange for third-party vendors to provide the services. Schwab may also discount or waive its fees for some of these services or pay all or part of a third party's fees. Schwab may also provide Paragon with other benefits, such as occasional business entertainment of personnel.

Paragon's interest in Schwab's services

The availability of these services from Schwab benefits us because we do not have to produce or purchase them. We do not have to pay for Schwab's services. We may have an incentive to recommend that clients maintain accounts with Schwab, based on our interest in receiving Schwab's services that benefit our business. This is a potential conflict of interest. We believe, however, that our selection of Schwab as custodian and broker is in the best interest of 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.

Item 13 Review of Accounts

Paragon provides ongoing review of client accounts throughout the year. Those advisors conducting the reviews are: Terry Sullivan, Senior Managing Director and Christine Jemison, Senior Managing Director. Terry Sullivan is involved in all clients' global financial issues, and may oversee more than 50 client accounts. All other financial advisors employed by Paragon have fewer than 25 clients.

The information with respect to investments is typically obtained from the sponsor or managers of such investments and is sent directly to clients. The review of a client may vary in format and frequency depending on the requests of the client. Reports generally include a Statement of Assets and Liabilities, Asset Allocation, Investment Performance Report, and Taxable Income and Cash Flow Projections. These reports are tailored to meet the specific needs of each client and vary in scope and approach on a client-by-client basis. While a client may request more or less frequent reporting, Paragon typically provides Investment Performance Reports to clients on a quarterly basis, and a comprehensive reporting package at least annually, updating the client's overall financial affairs.

Item 14 Client Referrals and Other Compensation

Paragon receives no compensation for client referrals.

Paragon 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

Client funds are maintained with a qualified custodian, chosen by the client. Paragon will research and make recommendations as to the qualified custodian chosen by clients, but the choice of custodian is made by each individual/family (see Item 12 – Brokerage Practices, above). Paragon or any related party does not act as qualified custodian for any client funds.

Paragon may have custody, under SEC rules, of client assets due to authority given to Paragon by its clients. Mr. Sullivan, Ms. Jemison, and one of Paragon's Managing Directors, Liz Faller, act as Trustee or manager member for certain client entities, or have power of attorney over such entities or other client accounts. Paragon may also have authority to pay bills or wire funds from certain client accounts. Paragon occasionally has access to information which gives its advisors the ability to act on behalf of the client, such as possession of client usernames and passwords for brokerage account websites. Paragon is deemed to have custody of client cash and securities in all of these instances since Paragon has the ability to act autonomously on the client's behalf, even if we do not utilize this ability.

Accounts over which Paragon is deemed to have custody must be maintained with a qualified custodian, and clients should receive account statements at least quarterly directly from the qualified custodian. We urge clients to carefully review all such account statements received. In addition, all accounts over which Paragon is considered to have custody are subject to an annual surprise audit by an independent CPA.

Falmouth Investment Company is the manager member for several investment partnerships in which Paragon clients invest. As manager member, Falmouth has custody of all the client assets held by the investment funds. All cash and investments of the individual funds are held by a qualified custodian, either US Bank, First Place Bank or through the underlying investment manager. Falmouth is required to provide audited financial statements for these funds to investors by June 30th annually.

Item 16 Investment Discretion

Paragon does not typically have discretionary authority to manage securities on behalf of clients.

As mentioned above, Mr. Sullivan and Ms. Jemison may act as Trustee or manager member for client entities or act as power of attorney on client accounts. In limited cases, clients may grant Mr. Sullivan or Ms. Jemison broad authority to make trades in their accounts without the need for client approval. Paragon is considered to have full investment discretion in both of these instances, and may execute trades on behalf of these clients without the client's involvement. We will do so according the asset allocation plan discussed with and reviewed by the client.

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 limited 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”)

Unless specifically agreed to, Paragon does not have voting authority, and clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. Paragon may provide advice to clients regarding the clients’ voting of proxies. In limited cases, such as when Paragon acts as trustee of a client account, we may have the authority to vote proxies on behalf of advisory clients. Paragon will always act in the best interest of its clients in voting of proxies, and votes all proxies with the expectation of maximizing client value.

As manager member of the pooled investment funds, 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

Paragon Advisors, Inc. has no financial commitments that impair its ability to meet contractual and fiduciary commitments to clients.