



PARAGON
INVESTMENT
MANAGEMENT, INC.

Part 2A of Form ADV: *Firm Brochure*

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This brochure provides information about the qualifications and business practices of Paragon Investment Management, Inc. (hereinafter “Paragon” or “firm” or “we”). If you have any questions about the contents of this brochure, please contact us at (206) 583-8300 or at paragon@pim.org. 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 is available on the SEC’s website at www.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. The CRD number for Paragon is 107869. . Registration with the Securities and Exchange Commission does not imply any level of skill or training

Item 2. Summary of Material Changes

As of March 20, 2012 we have made three material changes to our Firm Brochure (Form ADV Part 2a).

- We have amended the amount of assets under management effective 12/31/2011.
- We have described our service as a ‘sub-advisor’ for other Investment Advisory firms.
- We have added a description of our trade error policies.
- We changed the wording describing our relationship with Schwab in the discussion of our soft dollar practices.

As of August 10, 2012 we have made material changes to our Firm Brochure (Form ADV Part 2 a and b)

- We made slight changes to the first paragraph regarding client referrals and other compensation due to an agreement for Paragon to receive solicitation fees from another registered investment advisor.
- One employee was removed from the Firm Brochure Part 2b.

Our current (updated) Disclosure Brochure (Form ADV, Part 2) will be available to our existing and prospective clients 24 hours a day through the Investment Adviser Public Disclosure website. Additionally, we will annually and within 120 days of the end of our fiscal year, provide you either: (i) a copy of our Form ADV, Part 2 that includes or is accompanied by a summary of material changes; or (ii) a summary of material changes that includes an offer to provide a copy of the current Form ADV, Part 2. We urge you to carefully review all subsequent summaries of material changes, as they will contain important information about any significant changes to our advisory services, fee structure, business practices, conflicts of interest, and disciplinary history.

You may request a full copy of our disclosure brochure at any time, by either calling us at (206)583-8300 or sending an email request to: paragon@pim.org.

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Item 4. Advisory Business

Paragon Investment Management, Inc. was founded in August 1991 in Seattle, Washington as an independent, privately owned Company. Paragon is a fee based, SEC-registered investment adviser. Our firm is managed by Shari J. Burns and Catherine E. B. Humbert as majority direct owners and Gary R. Mitchell and Marjanne K. Masterman as minority direct owners.

Discretionary assets under our firm's management were \$1,241,016,488 as of December 31, 2011.

Our firm offers the following advisory services to our clients:

Portfolio Management Services

Our firm provides continuous advice to a client regarding the investment of funds based on the individual needs of the client. During our data-gathering process, we determine the client's individual objectives, time horizon, risk tolerance, and liquidity needs. We may also review and discuss a client's prior investment history, as well as family composition and background. We then use that information to establish customized investment objectives and guidelines. We create and manage a portfolio based on these documents.

Our firm also serves as a sub-advisor to other Investment Advisory firms. We sub-advise a portion of the Primary Investment Advisor's client assets which are invested in fixed income securities. The Primary Investment Advisor determines the client objectives, time horizon, risk tolerance and liquidity needs and then asks us to manage those assets, in a separately managed account, under the guidelines that they provide.

We manage advisory accounts on a discretionary basis as stated in the Investment Management Agreement. Account supervision is guided by the stated objectives of the client (i.e., maximum capital appreciation, growth, income, or growth and income), as well as tax considerations. Clients may impose reasonable restrictions on investing in certain securities, types of securities, or industry sectors.

Financial Consulting Services

Occasionally, we offer financial consulting services, including investment analysis, cash flow forecasts, or other specific topics to an individual client.

Services in General

Our investment recommendations are not limited to any specific product or service offered by a broker dealer or insurance company and will primarily include advice regarding the following instruments:

- Short and intermediate term fixed income securities (including government, corporate, municipal and foreign bonds)

- High quality diversified equity securities
- Exchange traded funds (ETFs)
- No-load or load-waived mutual funds

Occasionally, client portfolio holdings may also include the following instruments:

- Warrants
- Commercial paper
- Certificates of deposit
- Option contracts

In addition we may recommend to clients investment in private placement offerings and/or limited investment partnerships, such as, hedge funds and other pooled investment partnerships. Additional information about the fees related to such investments is included in the offering documents provided to prospective investors. Because these types of investments involve certain additional degrees of risk, they will only be recommended when consistent with the client's stated investment objectives, tolerance for risk, liquidity and suitability.

We tailor all of our investment recommendations to the individual needs of each client. All consulting recommendations are based on information gathered through client questionnaires, telephone, electronic and in-person discussions.

Item 5. Fees and Compensation

Portfolio Management Services

Our annual fee for portfolio management services will be charged as a percentage of assets under our management in accordance with the following fee schedule:

<u>Portfolio Type</u>	<u>Annual Fee (%)</u>
All Equity Account	1.00%
All Fixed Income Account	0.50%
Balanced Account	0.75%

Regulatory and compliance administration surcharge

Effective July 13, 2011 Paragon has a separate quarterly surcharge of \$25 added to the investment management fee invoice for each client account. This surcharge exists to cover the expense of Paragon's compliance with increased regulatory requirements. The expenses include increased consulting fees, CPA examination fees, compliance software, etc.

Financial Consulting

For any ad-hoc consulting, we will charge based on an hourly rate of \$300. This fee will generally be waived for clients who engage us for Portfolio Management services.

Fees in General

Unless otherwise agreed, we will directly debit client accounts quarterly in advance at the beginning of each calendar quarter based upon the average of the previous quarter's three month-end values (market value or fair market value in the absence of market value), of the client's account. The quarterly fee will be pro-rated for accounts opening or closing within the quarter. The quarterly fee may also be pro-rated for additions and withdrawals.

Financial Consulting fees will be billed as the contracted-for work is performed.

Fees and account minimums for all services are negotiable based upon certain criteria (i.e. anticipated future earning capacity, anticipated future additional assets, dollar amount of assets to be managed, related accounts, account composition, negotiations with client, etc.). Discounts, not generally available to our advisory clients, may be offered to family members.

We may group certain related client accounts for the purposes of determining the account size and/or annualized fee.

Certain legacy client agreements may be governed by fee schedules different from those listed above.

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.

Account Termination

Clients will have a period of five (5) business days from the date of signing the agreement to unconditionally rescind the agreement and receive a full refund of all fees. Thereafter, the client may terminate the agreement by providing us with a 30-day written notice at our principal place of business. Upon termination of any account, any prepaid, unearned fees will be promptly refunded, and any earned, unpaid fees will be due and payable.

Mutual Fund and ETF Fees and Expenses: All fees paid to our firm for investment advisory services are separate and distinct from the fees and expenses charged by mutual funds and ETFs to their shareholders. These fees and expenses are described in each fund's prospectus. These fees will generally include a management fee, other fund expenses, and a possible distribution fee. A client could invest in a mutual fund or and ETF directly, without the services of our firm. In that case, the client would not receive the services provided by us which are designed, among other things, to assist the client in determining which mutual fund or funds or ETFs are most appropriate to each client's financial condition and objectives. Accordingly, the client should review both the fees charged by the funds and ETFs and the fees charged by us to fully

understand the total amount of fees to be paid by the client and to thereby evaluate the advisory services being provided.

Although we generally do not recommend “load” funds, clients should be aware that certain mutual funds charge “front-end loads” or “back-end loads” which are paid to investment intermediaries as sales commissions. As such, these sales charges are not part of a mutual fund's operating expenses and are deducted from the investment amount, thus lowering the size of the investment. Certain mutual funds also charge annual marketing or distribution fees. These 12b-1 fees are considered an operational expense and, as such, are included in a fund's expense ratio.

Brokerage and Custodial Fees

In addition to advisory fees paid to our firm, clients will also be responsible for all transaction, brokerage, trade-away, and custodial fees incurred as part of their account management. Please see Item 12 of this Brochure for important disclosures regarding our brokerage practices.

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

We do not charge any fees based on a share of capital gains on or capital appreciation of the assets of a client.

Item 7. Types of Clients

Our firm primarily provides advisory services to individuals, trusts and foundations. We may also provide advisory services to pension and profit sharing plans, charitable organizations, corporations and business entities. In addition to providing direct advisory services to clients, we also serve as a sub-adviser to other investment advisory firms.

We require a minimum account size of \$1,000,000 of assets under management. Our minimum annual fee is \$10,000.

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

Our firm employs the following types of analysis to formulate client recommendations:

Fundamental analysis. We attempt to measure the intrinsic value of a security by looking at economic and financial factors (including the overall economy, industry conditions, and the financial condition and management of the company itself) to determine if the company is underpriced (indication it may be a good time to buy) or overpriced (indicating it may be time to sell).

Fundamental analysis does not attempt to anticipate market movements. This presents a potential risk, as the price of a security can move up or down along with the overall market regardless of the economic and financial factors considered in evaluating the stock.

Technical analysis. We analyze past market movements and apply that analysis to the present in an attempt to recognize recurring patterns of investor behavior and to potentially predict future price movement.

Technical analysis does not consider the underlying financial condition of a company. This presents a risk in that a poorly-managed or financially unsound company may underperform regardless of market movement.

Mutual Fund and/or ETF Analysis: We primarily use No-Load funds and ETF Index investments as a low cost, diversified way to have exposure to a specific investment strategy or asset class. We look at the funds' overall strategy, liquidity, performance track record and management fees and expenses as the key metrics in our analysis. We also look at the underlying assets in a mutual fund or ETF in an attempt to determine if there is significant overlap in the underlying investments held in other assets in the client's portfolio. .

A risk of mutual fund and/or ETF analysis is that, as in all securities investments, past performance does not guarantee future results. A manager who has been successful may not be able to replicate that success in the future. In addition, as we do not control the underlying investments in a fund or ETF, managers of different funds held by the client may purchase the same security, increasing the risk to the client if that security were to fall in value. There is also a risk that a manager may deviate from the stated investment mandate or strategy of the fund or ETF, which could make the fund or ETF less suitable of the client's portfolio.

Risks for all forms of analysis: Our securities analysis method relies on the assumption that the companies whose securities we purchase and sell, the rating agencies that review these securities, and other publicly-available sources of information about these securities, are providing accurate and unbiased data. While we are alert to indications that data may be incorrect, there is always a risk that our analysis may be compromised by inaccurate or misleading information.

Our firm employs the following investment strategies to implement investment advice given to clients:

Long-term purchases: We primarily purchase securities with the idea of holding them in the clients account for a year or longer. We may do this because we believe the securities to be currently undervalued. We may do this because we want exposure to a particular asset class over time, regardless of the current projection for this class.

A risk in a long-term purchase strategy is that, by holding the security for this length of time, we may not take advantages of short-term gains that could be profitable to a client. Moreover, if our predictions are incorrect, a security may decline sharply in value before we make the decision to sell.

Short-term purchases: At times, we may also purchase securities with the idea of selling them within a relatively short time (typically a year or less). We do this in an attempt to take

advantage of conditions that we believe will soon result in a price swing in the securities we purchase.

A risk in a short-term purchase strategy is that, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Margin transactions: Occasionally we will purchase stocks for your portfolio with money borrowed from your brokerage account. This allows you to purchase more stock than you would be able to with your available cash, and allows us to purchase stock without selling other holdings.

A risk in margin trading is that, in volatile markets, securities prices can fall very quickly. If the value of the securities in your account minus what you owe the broker falls below a certain level, the broker will issue a “margin call”, and you will be required to sell your position in the security purchased on margin or add more cash to the account. In some circumstances, you may lose more money than you originally invested.

Trading: On a rare occasion, we may purchase securities with the idea of selling them very quickly (typically within 30 days or less). We do this in an attempt to take advantage of our predictions of brief price swings.

A risk in a short-term purchase is the potential for sudden losses if the anticipated price swing does not materialize. Moreover, should the anticipated price swing not materialize, we are left with the option of having a long-term investment in a security that was designed to be a short-term purchase, or potentially taking a loss. In addition, this strategy involves more frequent trading than does a longer-term strategy, and will result in increased brokerage and other transaction-related costs, as well as less favorable tax treatment of short-term capital gains.

Option writing: Occasionally we may use options as an investment strategy. An option is a contract that gives the buyer the right, but not the obligation, to buy or sell an asset (such as a share of stock) at a specific price on or before a certain date. An option, just like a stock or bond, is a security. An option is also a derivative, because it derives its value from an underlying asset.

The two types of options are calls and puts:

A call gives us the right to buy an asset at a certain price within a specific period of time. We will buy a call if we have determined that the stock will increase substantially before the option expires.

A put gives us the holder the right to sell an asset at a certain price within a specific period of

time. We will buy a put if we have determined that the price of the stock will fall before the option expires.

We will use options to speculate on the possibility of a sharp price swing. We will also use options to “hedge” a purchase of the underlying security; in other words, we will use an option purchase to limit the potential upside and downside of a security we have purchased for your portfolio.

We use “covered calls”, in which we sell an option on security you own. In this strategy, you receive a fee for making the option available, and the person purchasing the option has the right to buy the security from you at an agreed-upon price.

A risk of covered calls is that the option buyer does not have to exercise the option, so that if we want to sell the stock prior to the end of the option agreement, we have to buy the option back from the option buyer, for a possible loss.

We use a “spreading strategy”, in which we purchase two or more option contracts (for example, a call option that you buy and a call option that you sell) for the same underlying security. This effectively puts you on both sides of the market, but with the ability to vary price, time and other factors.

A risk of spreading strategies is that the ability to fully profit from a price swing is limited.

Clients should understand that investing in any securities, including mutual funds, involves a risk of loss of both income and principal.

Item 9. Disciplinary Information

Our firm has no reportable disciplinary events to disclose.

Item 10. Other Financial Industry Activities and Affiliations

Neither our firm nor our employees engage in any other financial industry activities or have any other financial industry affiliations.

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

Code of Ethics Disclosure

Our firm has adopted a Code of Ethics which sets forth high ethical standards of business conduct that we require of our employees, including compliance with applicable federal securities laws. Our Code of Ethics includes policies and procedures for the review of quarterly securities transactions reports as well as initial and annual securities holdings reports that must be submitted by the firm’s access persons. Among other things, our Code of Ethics also requires the prior approval of any acquisition of securities in a limited offering (e.g., private placement) or an initial public offering. Our code provides for oversight, enforcement and recordkeeping

provisions. A copy of our Code of Ethics is available to our advisory clients and prospective clients upon request to Marjanne Masterman, Chief Compliance Officer, at the firm's principal office address.

Our firm or individuals associated with our firm may buy or sell securities identical to those recommended to or purchased for customers for their personal accounts. In addition, any related person(s) may have an interest or position in a certain security (ies) which may also be recommended to a client. This practice results in a potential conflict of interest, as we may have an incentive to manipulate the timing of such purchases to obtain a better price or more favorable allocation in rare cases of limited availability.

We may aggregate our employee trades with client trades. In case there is a partial fill of a particular batch order, we will allocate all the purchases pro-rata, with each account paying average price.

To mitigate these potential conflicts of interest and ensure the fulfillment of our fiduciary responsibilities, we have established the following restrictions:

1. No principal or employee of our firm may buy or sell securities for their personal portfolio(s) where their decision is substantially derived, in whole or in part, by reason of his or her employment unless the information is also available to the investing public on reasonable inquiry. No principal or employee of our firm may prefer his or her own interest to that of the advisory client.
2. It is the expressed policy of our firm that no person employed by us may buy or sell a security, which is owned by or purchased for a Paragon client, without pre-approval of the transaction. Our personal trading policies outline the specific steps taken to prevent our employee from benefiting from transactions placed on behalf of advisory accounts.
3. We maintain a list of all securities holdings for our firm and these are reviewed on a regular basis by Marjanne Masterman. In addition, we consider anyone directly associated with this advisory practice to have access to advisory recommendations and therefore request their compliance with our employee trading practices and policies.
4. All of our principals and employees must act in accordance with all applicable Federal and State regulations governing registered investment advisory practices.
5. Any individual not in observance of the above may be subject to disciplinary action or termination.

Item 12. Brokerage Practices

We endeavor to select those brokers or dealers which will provide the best services at the lowest prices and commission rates possible. The reasonableness of commissions is based on the broker's ability to provide expert execution skills, professional services, competitive commission rates, research, timeliness and track record of profitable investment ideas, portfolio strategies, forecasts and other services which will help us in providing investment management services to

clients.

Research and Other Soft Dollar Benefits

Consistent with obtaining best execution for clients, we may direct brokerage transactions for clients' portfolios to brokers who provide research and execution services to our firm. Such services include:

- Analyses or reports concerning issuers, industries, securities, economic factors and trends, portfolio strategy, and the performance of accounts;
- Reports concerning interrelated political and economic factors;
- Access to research analysts;
- Research-related seminars or conferences;
- Software that provides analyses of securities portfolios and assists with pre- and post-trade analytics, clearance, settlement and custody;
- Corporate governance research;
- Data services providing stock quotes, last sale prices, trading volumes; and
- Software that provides order routing and algorithmic trading strategies capabilities.

These services are of the type described in Section 28(e) of the Securities Exchange Act of 1934 and are designed to augment our own internal research and investment strategy capabilities. This may be done without prior agreement or understanding by the client and at our sole discretion. We do not attempt to put a specific dollar value on the services rendered or to allocate the relative costs or benefits of those services among clients, believing that the research we receive will help our firm to fulfill its overall duty to its clients. We may not use each particular research service, however, to service each client. As a result, a client may pay brokerage commissions that are used, in part, to purchase research services that are not used to benefit that specific client. Brokers selected by us may be paid commissions for effecting transactions for our clients that exceed the amounts other brokers would have charged for effecting these transactions if we determine in good faith that such amounts are reasonable in relation to the value of the brokerage and/or research services provided by those broker, viewed either in terms of a particular transaction or our overall duty of best execution.

Currently we only use soft dollars to acquire execution or research services. Certain items obtainable with soft dollars may not be used exclusively for either execution or research services. If we ever use a non-research type of product, the cost of such "mixed-use" products or services will be fairly allocated and we will make a good faith effort to determine the percentage of such products or services which may be considered as investment research. The portions of the costs attributable to non-research usage of such products or services are paid by our firm to the broker in accordance with the provisions of Section 28(e) of the Securities Exchange Act of 1934.

Our firm is currently enrolled in a commission sharing arrangement provided by BNY Convergenx Group. As a result of this arrangement, our firm receives access to third-party economic, fixed income and equity research in a centralized manner.

We also have a formal soft-dollar arrangement with Charles Schwab & Co., Inc. (hereinafter, “Schwab”). As a result of this arrangement, we receive economic forecasting and market analysis from BCA Research, Inc, paid for by Schwab with accumulated soft-dollar credits.

Schwab also makes available to Paragon other products and services that benefit Paragon but may not benefit its clients’ accounts. Some of these other products and services assist Paragon in managing and administering clients’ accounts. These include software and other technology that provide access to client account data (such as trade confirmations and account statements), facilitate trade execution (and allocation of aggregated trade orders for multiple client accounts), provide research, pricing information and other market data, facilitate payment of Paragon’s fees from its clients’ accounts, and assist with back-office functions, recordkeeping and client reporting. Many of these services generally may be used to service all or a substantial number of Paragon’s accounts, including accounts not maintained at Schwab Advisor Services. Schwab Advisor Services also makes available to Paragon other services intended to help Paragon manage and further develop its business enterprise. These services may include consulting, publications and conferences on practice management, information technology, business succession, regulatory compliance, and marketing. In addition, Schwab may make available, arrange and/or pay for these types of services rendered to Paragon by independent third parties. Schwab Advisor Services may discount or waive fees it would otherwise charge for some of these services or pay all or a part of the fees of a third-party providing these services to Paragon. While as a fiduciary, Paragon endeavors to act in its clients’ best interests, Paragon’s recommendation that clients maintain their assets in accounts at Schwab may be based in part on the benefit to Paragon of 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.

Clients should understand that when we use client brokerage commission, markups, or markdowns to obtain research or other products or services, as described above, our firm receives a benefit because it does not have to produce or pay for this research, products, or services. Therefore, we may have an incentive to select or recommend a broker based on our interest in receiving the research or other products or services, rather than on our clients’ interest in receiving most favorable execution. In addition, our firm theoretically could have an incentive to cause clients to engage in more securities transactions than would otherwise be optimal in order to generate brokerage compensation with which to acquire products or services. Since this incentive results in a conflict of interest for our firm, we have adopted the following policies and procedures to monitor and mitigate the conflict:

1. We use client commissions to pay for eligible services only, as defined in Section 28(e) and subsequent regulatory and industry guidance;
2. We conduct periodic analysis of volume of transactions sent to each approved broker along with the competitiveness of the commission schedules of each such broker;
3. We periodically evaluate the usefulness of services received from brokers in relation to the amount of commissions directed to each broker; and

Directed Brokerage

If a client, when undertaking an advisory relationship with our firm, already has a pre-established relationship with a broker and instructs us to execute all transactions through that broker, it should be understood that under those circumstances, we will not have the authority to negotiate commissions, obtain volume discounts and best execution may not be achieved. In addition, under these circumstances a disparity in commission charges may exist between the commissions charged to other clients since our firm may not be able to aggregate orders to reduce transaction costs or the client may receive less favorable prices. Due to these issues, we do not normally accept this type of request.

Trade Aggregation

We typically aggregate client trades when doing so is advantageous to our clients. Mostly, we will batch client transactions to receive volume discounts and to obtain better and more uniform pricing across client accounts. If we determine that aggregation of trades in a certain situation will be beneficial to our clients, transactions will be averaged as to price and will be allocated among our clients in proportion to the purchase and sale orders placed from each client account on any given day. Any exceptions from the pro-rata allocation procedure will be carefully explained and documented. Such exceptions may occur due to varying cash availability across accounts, divergent investment objectives, risk tolerances and existing concentrations, tax considerations, investment restrictions, performance relative to the applicable benchmark, performance relative to other accounts in the same strategy, and desire to avoid “odd lots,” (an amount of a security that is less than the normal unit of trading for that particular security).

Trade Errors

As a fiduciary, Paragon has the responsibility to execute orders correctly, promptly and in the best interests of our clients. In the event a trade error occurs in the processing of client trades, due to Paragon's actions, or inaction, or actions of others, our policy is to seek, to identify and to correct any errors as promptly as possible without disadvantaging the client or benefiting Paragon in any way.

If the error is the responsibility of Paragon Investment Management, all client transactions will be corrected and the firm will be responsible for any monetary loss resulting from an inaccurate or erroneous order. Depending on the situation, if the trade error creates a monetary gain the broker correcting the error will resolve the error in the client account leaving the gain and any tax ramification in the client account, unless we are otherwise instructed by the client. If the trade error creates a loss then the trade will be removed from the client account and the trade correction will take place in an ‘error’ account and Paragon will directly pay the broker for the loss incurred. If the client informs us that they do not want any gain or loss reflected on their account, then the trade error and its correction will be removed from the client’s account activity so there will be no reportable tax ramifications. Paragon will not benefit from a trade error.

Item 13. Review of Accounts

Portfolio Management Services

Our Investment Policy Committee and the portfolio managers, under the supervision of Shari Burns, President & Director and Catherine Humbert, Director, will continuously monitor the underlying securities in client accounts and perform at least annual reviews of account holdings for all clients. Accounts are reviewed for consistency with client investment strategy, asset allocation, risk tolerance and performance relative to the appropriate benchmark. More frequent reviews may be triggered by changes in an account holder's personal, tax or financial status. Geopolitical and macroeconomic specific events may also trigger reviews.

In addition to the monthly statements and confirmations of transactions that clients receive from their custodian and/or broker dealer, our firm will provide at least quarterly reports of status of the portfolio, transactions, and a gain and loss summary. Depending on the account size and service level, we may also provide annual reports on individual account performance. Performance reports are available to the client at any time, upon request.

Financial Consulting Services

We will review these client accounts as contracted for at the inception of the advisory relationship. We will not typically provide additional reports unless otherwise contracted.

Item 14. Client Referrals and Other Compensation

Paragon Investment Management, Inc. participates in solicitation arrangements which involve payment of referral fees for prospective clients. Paragon will either receive or pay solicitation fees depending on the situation.

Payment of referral fees for prospective client referrals creates a potential conflict of interest to the extent that such a referral is not unbiased and the solicitor is, at least partially, motivated by financial gain. Therefore, such a referral may be made even if our advisory services are not suitable to a particular client's needs or entering into an advisory relationship with us is not, overall, in the best interest of the client. As these situations represent a conflict of interest, we have established the following restrictions in order to ensure our fiduciary responsibilities:

1. All such referral fees are paid in accordance with the requirements of Rule 206(4)-3 of the Investment Advisers Act of 1940, and any corresponding state securities law requirements;
2. Any such referral fee will be paid solely from our investment management fee, and will not result in any additional charge to the client;
3. If the client is introduced to us by an unaffiliated solicitor, the solicitor, at the time of the solicitation, will disclose the nature of his/her/its solicitor relationship and provide each prospective client with a copy of our Form ADV Part 2 Brochure, together with a copy of the written disclosure statement from the solicitor to the client disclosing the terms of the

solicitation arrangement between our firm and the solicitor, including the compensation to be received by the solicitor from us; and

4. All referred clients will be carefully screened to ensure that our fees, services, and investment strategies are suitable to their investment needs and objectives.

Item 15. Custody

Custody is defined as any legal or actual ability by our firm to access client funds or securities. Since all client funds and securities are maintained with a qualified custodian, we don't take physical possession of client assets. However, because we directly debit client fees from their custodial accounts and have the ability to move client assets according to their standing letters of authorization, our firm is deemed to have constructive custody of client assets. In compliance with Securities and Exchange Commission regulations, we have engaged Breard & Associates, Inc., Certified Public Accountants, to conduct the required surprise exam to safeguard our client assets. We urge all of our clients to carefully review their account holdings and/or performance results, and to compare reports received from us to those they receive from their custodian. Should you notice any discrepancies, please notify us and/or your custodian as soon as possible.

Item 16. Investment Discretion

For clients granting us discretionary authority to determine which securities and the amounts of securities that are to be bought or sold for their account(s), we request that such authority be granted in writing, typically in the executed investment management agreement.

Should the client wish to impose reasonable limitations on this discretionary authority, such limitations shall be included in the executed investment advisory agreement. Clients may change/amend these limitations as desired. Such amendments must be submitted to us by the client in writing.

Item 17. Voting Client Securities

Advisory clients may elect to delegate their proxy voting authority to us. Alternatively, clients may, at their election, choose to receive proxies related to their own accounts. (With respect to ERISA accounts, we will vote proxies unless the plan documents specifically reserve the plan sponsor's right to vote proxies). Since proxies are voted in bulk across all advisory accounts, clients cannot instruct, direct, or change our voting decisions. However, clients can consult with us regarding specific voting decisions.

When we have discretion to vote proxies for our clients, we will utilize the proxy voting and due diligence services provided by ISS, an MSCI brand (formerly RiskMetrics) (hereinafter, "ISS"). We have conducted extensive due diligence on this third-party service provider and have adopted their proxy voting guidelines. Our firm and/or ISS will retain all proxy voting books and records for the requisite period of time, including a copy of each proxy statement received, a record of each vote cast, a copy of any document created by us that was material to making a decision how to vote proxies, and a copy of each written client request for information on how their proxies

were voted.

Clients may obtain a copy of ISS' complete proxy voting policies and procedures by contacting Marjanne Masterman, Chief Compliance Officer, directly. Clients may request, in writing, information on how proxies for his/her shares were voted. If any client requests a copy of ISS' complete proxy voting policies and procedures or how their proxies were voted, we will promptly provide such information to the client.

Item 18. Financial Information

Under no circumstances will we earn fees in excess of \$1,200 more than six months in advance of services rendered.