

Part 2A of Form ADV: Firm Brochure

PARAGON ADVISORS, INC.

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FORM ADV PART 2 A

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This brochure provides information about the qualifications and business practices of 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

The Company's Chief Compliance Officer is now Susanne M. Powers. She may be contacted at (216) 491-3990 or spowers@paragonadvisors.net.

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Item 4 Advisory Business

Paragon Advisors, Inc (“Paragon”) is a registered investment advisor with its principal place of business in Shaker Heights, Ohio. Paragon was founded in 1996. Terence C. Sullivan, Christine L. Jemison and Scott J. Swain are the owners of Paragon Advisors, Inc.

Paragon Advisors is a fee-based 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 of which most clients take advantage. These core services are as follows:

- 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 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

These other services arise out of client needs. These services may include, at the client’s request, that Paragon assist 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 \$597,000,000 of client assets as of January 31, 2013. This includes assets Paragon manages on a discretionary basis of approximately \$49,000,000.

Item 5 Fees and Compensation

Paragon charges an annual retainer to its clients 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. Annual fees for the Core Services are negotiated with each client and average around \$35,000. Fees for clients with complicated financial situations may exceed \$100,000 if the services provided are extensive. The fee is generally billed quarterly in advance, and out of pocket expenses incurred on behalf of clients are billed quarterly in arrears. All prepaid fees are refundable and advisory engagement agreements are terminable at will by either party upon reasonable notice.

Fees charged for other services or special projects outside the scope of the Core Services are negotiated based upon each individual situation. These fees are typically based upon time incurred by Paragon staff at hourly billing rates ranging from \$50-\$325 dollars per hour.

Falmouth Investment Company, Inc. ("Falmouth") is an affiliate of Paragon. Falmouth forms private investment companies ("Funds") and serves as manager member to such entities. These entities are formed by pooling client assets, typically in an LLC operating like a partnership. This will give clients an opportunity to access 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. Falmouth generally charges a fee for the organization of each pool, typically around \$20,000. Falmouth then charges an annual asset management fee ("AMF"), paid quarterly in advance, for the ongoing services provided to each fund as described in Item 4. The annual AMF ranges from 0.4% to 0.8% of the net asset value of the individual investment funds. In some instances, this fee is calculated based on capital committed to the individual funds. In some cases, Falmouth may defer fees until the entity has achieved profitability in a given year. This fee will not be incurred for funds which do not achieve appreciation in net asset value. For certain funds, Falmouth charges a distribution fee when cash distributions exceed capital commitments. Once investors receive distributions equal to their capital commitment, all future distributions are split between the investors and Falmouth, with 2-2.5% of distributions going to Falmouth. The distribution fee replaces the AMF, which terminates when the distribution fee becomes effective.

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

Falmouth utilizes staff and resources of Paragon Advisors, Inc. to perform its investment advisory services.

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).

As noted in Item 5, Falmouth charges management fees based upon capital commitments or assets under management, as described in the investment funds respective PPM. 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. Its evaluation techniques depend upon the investment being examined. The following are techniques that may be used to evaluate individual opportunities:

- Research reports from investment banking firms
- Research reports from brokerage firms
- General investment publications
- Meetings with money managers
- Meetings with general partners, sponsors or developers
- Meetings and phone calls with references for the sponsors of an investment (such as lawyers, accountants, bankers, etc.)
- Site and office visits
- 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 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. Paragon will prepare and review an asset allocation analysis and make recommendations to the client tailored to the client's situation. The asset allocation will be discussed with the client, at least annually, and as often as quarterly. Final investment decisions are made by the client. Depending upon the client's investment strategy, Paragon may provide advice on:

- 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.

Paragon will discuss the risks associated with a specific investment with the client and consider them in its 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 Advisors, Inc. provides tax return preparation and consulting for most of its clients in addition to its 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 Sullivan, Christine Jemison and Scott Swain. 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

Paragon Advisors, Inc. has adopted a Code of Ethics (the “Code”) that obligates Paragon Advisors, Inc. and its employees to have a fiduciary duty to place the interest of clients ahead of their own and the Company’s interests. This Code of Ethics applies to all employees of Paragon. 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.

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

Falmouth, 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 and affiliates of Paragon may invest in pools alongside clients. Terry Sullivan, Christine Jemison, Scott Swain and some other employees have invested their own money along the same economic terms as client investors. For the services provided to these pools, Falmouth will be compensated and will enjoy appreciation of its income to the same extent as the client. Paragon, its affiliates and its employees are prohibited from taking commissions or other compensation from the sponsors of investments in the funds. However, Paragon will make an effort to have the sponsors reimburse Paragon for the funds’ out of pocket and other expenses incurred during the due diligence process.

Item 12 Brokerage Practices

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, services provided 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 certain circumstances, Falmouth may select brokers and negotiate commission rates for transactions made within each fund based upon competitive commission rates Falmouth has negotiated with other brokers. Falmouth will select brokers best suited to the advisory client's needs based on the size of account, services provided and competitiveness of commissions.

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

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

Item 13 Review of Accounts

Terence C. Sullivan is involved in clients' overall financial issues. He may oversee more than 50 client accounts. All other financial advisors employed by Paragon have fewer than 30 clients. Investments are generally reviewed on a formal basis with clients no less frequently than annually. In most cases, Paragon provides clients with quarterly reports calculating the performance of their investments.

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 client accounts varies in format and frequency depending on the requests of the client. A client may request more or less frequent reviews of their financial information. Paragon provides comprehensive and detailed reports to clients at least annually, updating the client's overall financial affairs. 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.

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 typically 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. Paragon Advisors 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. Paragon may act as Trustee or manager member for client entities, or have power of attorney over such entities. Paragon may also have authority to pay bills or wire funds from certain client accounts. Paragon occasionally has access to information which gives it the ability to act on behalf of the client, such as possession of client passwords. 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 Paragon does not utilize this ability.

For accounts over which Paragon is deemed to have custody, clients should receive account statements at least quarterly directly from the qualified custodian. Paragon urges clients to carefully review all account statements received from qualified custodians.

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 investors in these funds to clients by June 30th annually, beginning in 2011.

Item 16 Investment Discretion

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

As mentioned above, Paragon may act as trustee or in a similar capacity (manager member, power of attorney) on client accounts. Paragon is considered to have full investment discretion in these instances. Paragon may execute trades on behalf of clients without the client's involvement. Paragon 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 certain circumstances, Falmouth may select brokers and negotiate commission rates for transactions made within each fund based upon competitive commission rates Falmouth has negotiated with other brokers. Falmouth will select brokers best suited to the advisory client's needs based on the size of account, services provided and competitiveness of commissions.

Item 17 Voting Client Securities (“Proxy Voting”)

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, Paragon 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.