FORM 10KSB/A

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]
[amend]

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FILER

PAULSON CAPITAL CORP

CIK:**704159**| IRS No.: **930589534** | State of Incorp.:**OR** | Fiscal Year End: **1231**
Type: **10KSB/A** | Act: **34** | File No.: **000-18188** | Film No.: **1697506**
SIC: **6211** Security brokers, dealers & flotation companies

Mailing Address
811 SW FRONT AVE
PORTLAND OR 97204

Business Address
811 SW FRONT AVE
SUITE 200
PORTLAND OR 97204
5032436000

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2000	Commission file number: 0-18188

FORM 10-KSB/A
(Amendment No. 1)

PAULSON CAPITAL CORP.

Name of small business issuer as specified in its charter

Oregon (State or other jurisdiction of incorporation or organization)	**93-0589534** (I.R.S. Employer Identification No.)
811 S.W. Naito Parkway, Suite 200 **Portland, OR** (Address of principal executive offices)	**97204** (Zip Code)

Issuer's telephone number, including area code: **(503) 243-6000**

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, no par value
Title of class

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /x/ No / /

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part II of this Form 10-KSB or any amendment to this Form 10-KSB.____

State issuer's revenues for its most recent fiscal year:

$22,429,840

As of March 19, 2001, 3,276,866 shares of the registrant's common stock, no par value, were outstanding and the aggregate market value of the shares of common stock of the Registrant held by non-affiliates (based upon the average of the closing bid and asked prices of Registrant's shares in the over-the-counter market as of such date) was $7,765,017.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for the 2001 annual meeting of shareholders to be filed with the Securities and Exchange Commission are incorporated by reference into Part III.

Transitional Small Business Disclosure Format:

Yes / / No /x/

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

(a) Financial Statements

Report of Independent Certified Public Accountants

Board of Directors and Shareholders
Paulson Capital Corp.

We have audited the accompanying consolidated balance sheets of Paulson Capital Corp. (an Oregon corporation) and Subsidiary as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Paulson Capital Corp. and Subsidiary as of December 31, 2000 and 1999, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying Supplementary Schedule of Warrants Owned as of December 31, 2000 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

We have also audited Schedule II for each of the three years in the period ended December 31, 2000. In our opinion, this schedule presents fairly, in all material respects, the information required to be set forth therein.

/s/ Grant Thornton LLP

Portland, Oregon
January 29, 2001, (except for the last paragraph of Note C,
as to which the date is February 16, 2001)

Paulson Capital Corp. and Subsidiary

CONSOLIDATED BALANCE SHEETS

December 31,

	2000	1999
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 104,309	$ 48,210
Receivable from clearing organization	8,878,083	7,336,562
Notes and other receivables	1,247,520	671,514
Trading securities, at market value	1,305,989	2,238,798
Investment securities, at market value	13,063,135	14,200,767
Underwriter warrants, at estimated fair value	–	10,490,000
Prepaid and deferred expenses	865,986	669,599
Deferred income taxes	5,298,000	–
Total current assets	30,763,022	35,655,450
NOTES RECEIVABLE	103,551	1,100,000
FURNITURE AND EQUIPMENT, net	509,676	525,716
INVESTMENT IN REAL ESTATE	169,900	169,900
	$ 31,546,149	$ 37,451,066
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	$ 194,399	$ 814,935
Payable to clearing organization	828,859	1,883,602
Compensation, employee benefits and payroll taxes	1,037,465	3,312,829
Securities sold, not yet purchased, at market value	31,496	65,794
Income taxes payable	3,896,000	1,116,800

Deferred income taxes	–	4,842,500
Total current liabilities	5,988,219	12,036,460
DEFERRED INCOME TAXES	39,100	–
SHAREHOLDERS' EQUITY		
Preferred stock, no par value; authorized, 500,000 shares; issued and outstanding, no shares	–	–
Common stock, no par value; authorized, 10,000,000 shares; issued and outstanding, 3,367,366 and 3,541,235 shares, respectively	1,080,011	732,343
Retained earnings	24,438,819	24,682,263
	25,518,830	25,414,606
	$ 31,546,149	$ 37,451,066

The accompanying notes are an integral part of these statements.

Paulson Capital Corp. and Subsidiary

CONSOLIDATED STATEMENTS OF OPERATIONS

Year ended December 31,

	2000	1999	1998
Revenues			
Commissions	$ 14,912,599	$ 15,075,567	$ 11,324,412
Corporate finance	2,504,316	2,115,619	1,716,691
Investment income (loss)	2,869,445	21,640,280	(1,949,262)
Trading income	2,047,418	317,159	589,822
Interest and dividends	91,650	16,641	48,668
Other	4,412	21,316	19,201
	22,429,840	39,186,582	11,749,532
Expenses			
Commissions and salaries	15,651,244	15,692,933	10,370,979
Underwriting expenses	522,830	1,350,372	731,035
Rent, telephone and quotation services	961,014	890,708	842,437
Interest expense	85	1,248	60,889
Professional fees	302,952	394,368	389,478
Bad debt expense	436,984	–	267,193
Travel and entertainment	284,542	333,927	283,234
Settlements	59,336	59,000	518,362
Other	1,782,754	1,152,530	1,015,582
	20,001,741	19,875,086	14,479,189

Earnings (loss) before income taxes	2,428,099	19,311,496	(2,729,657)
Income tax expense (benefit)	1,436,313	7,600,260	(961,017)
NET EARNINGS (LOSS)	$ 991,786	$ 11,711,236	$ (1,768,640)
Basic earnings (loss) per share	$ 0.29	$ 3.16	$ (.45)
Diluted earnings (loss) per share	$ 0.28	$ 3.16	$ (.45)

The accompanying notes are an integral part of these statements.

Paulson Capital Corp. and Subsidiary

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

Three year period ended December 31, 2000

	Common Stock		Retained
	Shares	Amount	Earnings
Balance at December 31, 1997	3,970,536	$ 794,416	$ 16,256,322
Issuance of common stock in lieu of directors' cash compensation	4,283	16,500	–
Redemption of common stock	(177,967)	(35,593)	(451,323)
Net loss for the year	–	–	(1,768,640)
Balance at December 31, 1998	3,796,852	775,323	14,036,359
Issuance of common stock in lieu of directors' cash compensation	1,783	8,500	–
Redemption of common stock	(257,400)	(51,480)	(1,065,332)
Net earnings for the year	–	–	11,711,236
Balance at December 31, 1999	3,541,235	732,343	24,682,263
Stock option grants	–	317,750	–
Stock options exercised	16,000	71,000	–
Redemption of common stock	(189,869)	(41,082)	(1,235,230)
Net earnings for the year	–	–	991,786
Balance at December 31, 2000	3,367,366	$ 1,080,011	$ 24,438,819

The accompanying notes are an integral part of these statements.

Paulson Capital Corp. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

Year ended December 31,

	2000	1999	1998
Increase (Decrease) in Cash and Cash Equivalents			
Cash flows from operating activities			
Net earnings (loss)	$ 991,786	$ 11,711,236	$ (1,768,640)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities			
Unrealized (appreciation) depreciation on investment securities and underwriter warrants	26,447,450	(13,556,395)	1,816,738
Realized (gain) loss on investment securities	(29,316,895)	(8,083,884)	404,441
Deferred income taxes	(10,101,400)	4,895,873	(1,796,273)
Common stock issued for compensation of directors	–	8,500	16,500
Compensation expense on stock option grants	317,750	–	–
Depreciation and amortization	182,785	136,274	89,448
Loss from sale of furniture and equipment	–	–	6,180
Write-down of notes receivable, net of recoveries	436,984	(267,193)	267,193
Interest accrued on notes receivable	(3,551)	–	–
Changes in assets and liabilities			
Receivables	(1,454,511)	(6,082,055)	3,051,643
Trading securities	932,809	(119,061)	6,782,065
Income taxes receivable/payable	2,779,200	1,284,859	(66,152)
Prepaid and deferred expenses	(196,387)	(91,043)	(177,711)
Accounts payable and accrued liabilities	(3,950,643)	3,279,288	(5,516,418)
Securities sold, not yet purchased	(34,298)	4,315	(269,250)
Net cash provided by (used in) operating activities	(12,968,921)	(6,879,286)	2,839,764
Cash flows from investing activities			
Purchases of investment securities	(117,771,535)	(41,501,353)	(27,439,553)
Proceeds from sale of investment securities	132,268,612	50,636,252	25,400,567
Proceeds from repayment of notes receivable	–	211,725	500,000
Issuance of note receivable	(100,000)	(1,100,000)	(534,385)
Additions to furniture and equipment	(166,745)	(302,661)	(252,352)
Net cash provided by (used in) investing activities	14,230,332	7,943,963	(2,325,723)

The accompanying notes are an integral part of these statements.

Paulson Capital Corp. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS–CONTINUED

Year ended December 31,

	2000	1999	1998
Cash flows from financing activities			
Proceeds from issuance of stock	$ 71,000	$ –	$ –
Payments to retire common stock	(1,276,312)	(1,116,812)	(486,916)
Net cash used in financing activities	(1,205,312)	(1,116,812)	(486,916)
Net Increase (Decrease) in Cash and Cash Equivalents	56,099	(52,135)	27,125
Cash and cash equivalents at beginning of year	48,210	100,345	73,220
Cash and cash equivalents at end of year	$ 104,309	$ 48,210	$ 100,345
Cash paid during the year for			
Interest	$ 85	$ 1,248	$ 61,389
Income taxes	$ 8,785,000	$ 1,441,715	$ 901,408
Noncash investing and financing activity			
Repayment of secured demand note collateral agreement	$ –	$ –	$ 100,000

The accompanying notes are an integral part of these statements.

Paulson Capital Corp. and Subsidiary

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A–ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Paulson Capital Corp. (the Company) is a holding company whose wholly-owned subsidiary, Paulson Investment Company, Inc. (Subsidiary) is a registered broker-dealer in securities under the Securities and Exchange Act of 1934, as amended. The Subsidiary renders broker-dealer services in securities on both an agency and principal basis to its customers who are fully introduced to Correspondent Services Corporation (CSC), a subsidiary of Paine Webber Group, Inc. The Subsidiary also acts as lead or participating underwriter for over-the-counter securities offerings. The Subsidiary conducts business throughout the United States. The Subsidiary is exempt from the reserve requirements under SEC Rule 15c3-3(k)(2)(ii), since it does not handle or carry customer securities and cash.

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. *Principles of Consolidation*

The accompanying consolidated financial statements include the accounts of Paulson Capital Corp. and its wholly-owned subsidiary, Paulson Investment Company, Inc. All significant intercompany balances and transactions have been eliminated in the consolidation.

2. *Security Transactions*

Securities transactions and related revenue are recorded on a trade date basis. Manager's fees, underwriter's fees, and other underwriting revenues are recognized at the time the underwriting is completed. Tax shelter revenue is recognized at the time individual tax shelter units are sold. Marketable securities are valued at market value, and securities not readily marketable are valued at fair value as determined by management. Changes in the value of these securities are reflected currently in the results of operations.

The fair value of not readily marketable securities is estimated by management using available information including the following: Quoted market prices of similar securities (i.e., unrestricted shares of the same company); price of recent known trades of the same or similar securities; the cost of the security if recently purchased adjusted for changes in the financial condition of the issuer; all other information available from review of available documents related to the issuer or discussions with management of the issuer.

3. *Fair Value of Financial Instruments*

The carrying amounts reflected in the balance sheet for cash, cash equivalents, notes and other receivables and payables approximate their respective fair values due to the short maturities of these instruments.

4. *Furniture and Equipment*

Depreciation of furniture and equipment is computed generally by the straight-line method over their estimated useful lives (5 years). Leasehold improvements are amortized over the lesser of their estimated useful life or the lives of their respective leases (2.5 years).

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5. *Cash Flows*

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, cash due from banks and brokerage accounts, certificates of deposit and highly liquid debt instruments purchased with a maturity of three months or less.

6. *Use of Estimates*

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

7. *Earnings Per Share*

Earnings (loss) per share are computed based on the weighted average number of common and dilutive common equivalent shares outstanding during the year (Note I).

8. *Income taxes*

The Company provides for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities as measured by the enacted tax rates which are expected to be in effect when these differences reverse. Income tax expense is the tax payable for the period and the change during the period in net deferred tax assets and liabilities.

9. *Recently Issued Accounting Pronouncements*

In 1998, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), Accounting for Derivative Instruments and Hedging Activities. SFAS 133 will require the Company to record all derivatives on the balance sheet at fair value. The new standard, as amended by SFAS 137 and SFAS 138, is effective for fiscal years beginning after June 15, 2000. As part of certain underwriting agreements, the Company receives underwriter warrants. These warrants are derivatives under the definition of SFAS 133. The Company does not have any hedging activities. The Company believes the impact of adopting this standard will not be material to its results of operations or equity since it currently marks all investments to fair value.

NOTE B–RECEIVABLE FROM AND PAYABLE TO CLEARING ORGANIZATION

The Subsidiary introduces all customer transactions in securities traded on U.S. securities markets to CSC on a fully-disclosed basis. The agreement between the Subsidiary and its clearing broker provides that the Subsidiary is obligated to assume any exposure related to nonperformance by customers or counterparties. The Subsidiary monitors clearance and settlement of all customer transactions on a daily basis.

The exposure to credit risk associated with the nonperformance of customers and counterparties in fulfilling their contractual obligations pursuant to these securities transactions can be directly impacted by volatile trading markets which may impair the customer's or counterparty's ability to satisfy their obligations to the Subsidiary. In the event of nonperformance, the Subsidiary may be required to purchase or sell financial instruments at unfavorable market prices resulting in a loss. Management does not anticipate nonperformance by customers and counterparties in the above situations.

In addition to the clearing services provided, CSC also loans money to the Subsidiary to finance trading accounts.

NOTE C–NOTES AND OTHER RECEIVABLES

Notes and other receivables consist of the following:

	2000	1999
Notes receivable	$ 741,854	$ –
Employees	97,051	558,131
Independent brokers	306,647	59,045
Other	101,968	54,338
	$ 1,247,520	$ 671,514

Employee and independent broker receivables relate principally to advances, expenses, inventory losses and settlements charged to the registered representatives of the subsidiary in excess of commission earnings. For the years ended December 31, 2000, 1999, and 1998, receivables from employees and independent brokers of $175,702, $80,379, and $85,448, respectively, were determined by management to be uncollectible and written off.

The Company has a note receivable of $103,551 (including $3,551 of accrued interest). This note is unsecured, has an interest rate of 7% and does not have a stated due date.

At December 31, 2000 the Company had a $1,100,000 (plus related accrued interest of $78,838) unsecured note receivable from a company that was subordinated to the interest of another creditor. This note had an interest rate of 6% and was due October 21, 2001. On February 16, 2001, the Company settled this note in exchange for stock of the debtor. The value of the stock received was $741,854 on February 16, 2001. Accordingly, the note receivable was written down to $741,854 at December 31, 2000.

NOTE D–TRADING AND INVESTMENT SECURITIES

Trading securities and securities sold not yet purchased represent the market value of securities held long and short by the Company's subsidiary.

The categories of trading securities and their related market values follow:

	2000	1999

	Long	Short	Long	Short
Common stock	$ 886,732	$ 31,496	$ 1,895,409	$ 65,794
State and municipal bonds	219,008	–	262,082	–
Corporate bonds	200,249	–	81,307	–
	$ 1,305,989	$ 31,496	$ 2,238,798	$ 65,794

As a securities broker-dealer, the Subsidiary is engaged in various securities trading and brokerage activities as principal. In the normal course of business, the Subsidiary has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. This obligation is recorded in the financial statements at the market value of the related securities.

Investment securities held by the Subsidiary which are readily marketable are stated at market value. Included in investment securities are certain securities which are not readily marketable. Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. At December 31, 2000 these securities consist of corporate stocks and warrants at estimated fair value of $1,021,901 and a convertible debenture valued at $100,000. At December 31, 1999 these securities consist of corporate stocks and warrants at estimated fair value of $914,210 and a convertible debenture valued at $100,000. A summary of the investment securities portfolio follows:

	Cost	Market Value	Unrealized Gain (Loss)	Carrying Value
December 31, 2000				
Corporate equities	$ 25,109,289	$ 12,818,560	$ (12,290,729)	$ 12,818,560
Corporate warrants	583,851	144,575	(439,276)	144,575
Corporate bonds	202,420	100,000	(102,420)	100,000
	$ 25,895,560	$ 13,063,135	$ (12,832,425)	$ 13,063,135
December 31, 1999				
Corporate equities	$ 10,802,353	$ 11,481,077	$ 678,724	$ 11,481,077
Corporate warrants	949,717	2,697,800	1,748,083	2,697,800
Corporate bonds	102,420	21,890	(80,530)	21,890
	$ 11,854,490	$ 14,200,767	$ 2,346,277	$ 14,200,767

Realized gain (loss) included in the determination of net earnings was $29,316,895, $8,083,884, and $(404,441), for the years ended December 31, 2000, 1999 and 1998, respectively.

NOTE E–UNDERWRITER WARRANTS

As provided in certain underwriting agreements, Paulson Investment Company, Inc. obtains warrants to purchase equity instruments from client companies. During the period for which the warrants are restricted the Company recognizes no value. When the restrictions expire and the underlying securities become exercisable, the Company marks the warrants to estimated fair value.

The estimated fair value of warrants is determined in good faith by management taking into consideration all indications of value and factors relevant to the value of the warrant (Note A2) that are available.

The following table summarized activity in underwriter warrants:

Estimated value at January 1, 1998	$	5,299,000
Unrealized loss		(2,811,000)
Estimated fair value at December 31, 1998		2,488,000
Realized gain		(6,852,854)
Unrealized gain		14,854,854
Estimated fair value at December 31, 1999		10,490,000
Cost of warrants exercised, but not sold, and transferred to securities owned		(398,331)
Realized gain		(23,472,158)
Unrealized gain		13,380,489
Estimated fair value at December 31, 2000	$	–

NOTE F–FURNITURE AND EQUIPMENT

Furniture and equipment are stated at cost and consist of the following:

	2000	1999
Office equipment	$ 1,304,545	$ 1,173,097
Leasehold improvements	70,571	35,274
Vehicles	65,619	65,619
	1,440,735	1,273,990
Less accumulated depreciation and amortization	931,059	748,274
	$ 509,676	$ 525,716

NOTE G–INCOME TAXES

Income tax expense (benefit) consists of the following:

	2000	1999	1998
Current tax expense			
Federal	$ 8,638,164	$ 1,921,593	$ 724,613
State	2,899,549	782,794	110,643
	11,537,713	2,704,387	835,256
Deferred tax expense (benefit)			

Federal	(7,514,500)	4,338,537	(1,579,461)
State	(2,586,900)	557,336	(216,812)
	(10,101,400)	4,895,873	(1,796,273)
	$ 1,436,313	$ 7,600,260	$ (961,017)

Income tax expense (benefit) for each year varies from the amount computed by applying the statutory federal income tax rate to earnings (loss) before taxes as follows:

	2000	1999	1998
Income tax expense (benefit) at statutory federal tax rate	$ 825,560	$ 6,566,000	$ (928,000)
State and local taxes net of federal benefit	271,257	841,000	(119,000)
Large corporation incremental rate	251,707	–	–
Permanent and other differences	87,789	193,260	85,983
	$ 1,436,313	$ 7,600,260	$ (961,017)

The deferred income tax asset (liability) consists of the following at December 31,:

	2000	1999
Unrealized depreciation (appreciation) on securities	$ 5,222,000	$ (4,923,000)
Accrued expenses	–	48,000
State net operating loss carryforwards	76,000	67,100
Fixed asset depreciation	(39,100)	(34,600)
	$ 5,258,900	$ (4,842,500)

The state net operating loss carryforwards expire through 2015.

NOTE H–COMMON STOCK

The Subsidiary has a key employee stock purchase plan. Under the plan, the Subsidiary will match funds (up to $25,000) committed by key employees for the purchase of shares of the Company's common stock. The committed and matching funds will be used by the Subsidiary to purchase stock of the Company in the open market or by negotiated transactions. One half of the shares will be resold to the participating employee and one half of the shares will be transferred to the employee for no cash consideration. The named participants, the number of shares purchased in the open market and the amount of matching funds will be at the discretion of the Board of Directors of the Subsidiary. No participants were named and no purchases of common stock under this plan were made during 2000, 1999 or 1998.

On September 30, 1999, the Board of Directors approved the 1999 Stock Option Plan. The plan received shareholder approval at the June 20, 2000 shareholder meeting. The plan reserves 500,000 shares of the Company's common stock for issuance upon exercise of the options. The 1999 Stock Option Plan provides for the grant of incentive options and nonqualified options. The options granted during 2000 have an exercise price of $4.4375, vest immediately and expire on August 15, 2004. The market price at the date of grant was $7.00, which resulted in the Company recording compensation expense of $317,750 during the year ended December 31, 2000. The estimated fair value of the options at the date of grant, as calculated using the Black-Scholes option-pricing model, was $4.359 per share. The following table summarizes activity under the Plan for the year ended December 31, 2000:

	Shares Under Option	Exercise Price
Balance at December 31, 1999	–	$ –
Granted	124,000	4.44
Exercised	(16,000)	4.44
Canceled	–	–
Balance at December 31, 2000	108,000	4.44

The Company has adopted the disclosure only provisions of Financial Accounting Standard No. 123, "Accounting for Stock-Based Compensation" (FAS 123). It applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," in accounting for its Plans. Had the Company elected to recognize compensation expense based upon the fair value at the grant date for awards under these Plans consistent with the methodology prescribed by FAS 123, the effect on the Company's net income and earnings per share would have been to decrease net income and earnings per share by approximately $40,500 and $.01 for the year ended December 31, 2000. The fair value of each option grant is estimated on the date of grant using the Black-Scholes options-pricing model with the following weighted-average assumptions: no dividends; expected volatility of 55%; risk-free interest rate of 6.2% and expected life of 4 years.

NOTE I–EARNINGS PER SHARE

The following table is a reconciliation of the numerators and denominators of the basic and diluted per share computations for each of the three years in the period ended December 31, 2000:

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
1998			
Basic earnings (loss) per share			
Income (loss) available to common stockholders	$ (1,768,640)	3,917,788	$ (.45)
1999			
Basic earnings per share			
Income available to common stockholders	$ 11,711,236	3,704,360	$ 3.16
2000			
Basic earnings per share			
Income available to common stockholders	$ 991,786	3,474,142	$ 0.29
Effect of dilutive securities			
Stock options	–	12,546	(0.01)
Diluted earnings per share			
Income available to common stockholders	$ 991,786	3,486,688	$ 0.28

During the year ended December 31, 2000 all outstanding stock options were included in the computation of diluted earnings per share since the options' exercise price was less than the average market price of the common shares. During the years ended December 31, 1999 and 1998 there were no potentially dilutive securities outstanding.

NOTE J–LEASES

Future minimum payments, by year and in the aggregate, required under non-cancelable operating leases with initial or remaining terms of one year or more consist of the following:

Year ending December 31,		
2001	$	309,236
2002		143,457

The leases provide for payment of taxes and other expenses by the Company. Rental expense for the years ended December 31, 2000, 1999 and 1998 approximated $272,000, $265,000, and $270,000, respectively.

NOTE K–EMPLOYEE BENEFIT PLANS

Retirement benefits for employees of the Company, who have completed certain service requirements, are provided by a defined contribution profit-sharing plan. Plan contributions are determined by the Board of Directors. Contributions to the plan for the years ended December 31, 2000, 1999 and 1998 were $300,000 $600,000, and $0, respectively.

NOTE L–CONTINGENCIES

The Company and its Subsidiary have been named by individuals in certain legal actions, some of which claim state and federal securities law violations and claim principal and punitive damages. As preliminary hearings and discovery in these cases is not complete, it is not possible to assess the degree of liability, the probability of an unfavorable outcome or the impact on the Company's financial statements, if any. Management denies the charges in these legal actions and is vigorously defending against them. No provision for any liability, if any, that may result from the above contingencies has been made in the financial statements.

NOTE M–NET CAPITAL REQUIREMENT

The Subsidiary is subject to the net capital rule (Rule 15c3-1) of the Securities and Exchange Commission. This rule prohibits the Subsidiary from engaging in any securities transaction at a time when its "aggregate indebtedness" exceeds fifteen times its "net capital" as those terms are defined by the rule. At December 31, 2000, the Subsidiary's net capital and required net capital were $18,029,122 and $100,000, respectively, and its ratio of aggregate indebtedness to net capital was .06 to 1. The Subsidiary's minimum net capital requirement is $100,000.

Paulson Capital Corp. and Subsidiary

SUPPLEMENTARY SCHEDULE OF WARRANTS OWNED

Description	Shares Entitled to Purchase		Exercise Price Per-Share	Expiration Date
AdStar.com (units) ERC 12-17-00	60,500	$	7.20	2004, 12/16
AdStar.com, Inc. ERC 9-25-01	149,000	$	1.80	2005, 09/25
Advantage Marketing Systems (units) ERC 11-12-98	65,520	$	5.40	2002, 11/12
Audiohighway (units) ERC 12-17-99	163,900	$	7.80	2003, 12/17
AVI Biopharma, Inc. (units) ERC 6-3-98 (ANTIVIRALS)	112,700	$	10.80	2002, 06/03
AVI Biopharma, Inc. (units) ERC 7-26-01	151,014	$	8.70	2005, 07/26
Beta Oil & Gas, Inc. ERC 7-30-00	9,300	$	7.50	2004, 07/30
Charles & Colvard, Ltd. ERC 11-14-98 (C3, Inc.)	214,592	$	18.00	2002, 11/14
Cal-Maine Foods, Inc. ERC 12-11-97	177,100	$	8.40	2001, 12/10
Careside, Inc. (units) ERC 06-15-00	92,650	$	9.00	2004, 06/15
Caring Products International, Inc. (units) ERC 12-9-98	83,075	$	6.00	2002, 12/09
Cell Robotics International, Inc. (units) ERC 2-2-99	29,800	$	9.90	2003, 02/01
Complete Management, Inc. ERC 6-11-97	31,377	$	21.04	2001, 06/11
Dag Media, Inc. ERC 05-12-00	90,562	$	7.80	2004, 05/12
E.Com International, Inc. ERC 12-5-97	75,587	$	3.50	2002, 12/31
Hometown Auto Retailers NC ERC 7-28-99	120,690	$	10.80	2003, 07/28
Imageware Systems, Inc. (units) ERC 3-30-01	106,323	$	9.60	2005, 03/30
Neotherapeutics Inc. (units) ERC 9-25-97	161,000	$	9.12	2001, 09/25
Pacific Aerospace & Electronics (Units) ERC 7-15-97 (PCT)	146,700	$	3.75	2001, 07/15
Pacific Mercantile Bancorp ERC 6-15-01	158,350	$	9.60	2005, 06/14
Premium Cigars International, Ltd. ERC 8-21-98	2,000	$	8.40	2002, 08/21
3D shopping.com (units) ERC 07-20-00	73,466	$	14.40	2004, 07/20
WSG Systems, Inc. ERC 4-8-99	11.0260	$	6,000.00	2003, 03/31

Schedule II

Paulson Capital Corp. and Subsidiary

Valuation and Qualifying Accounts

Years ended December 31, 2000, 1999 and 1998

Description		Balance Beginning of Year		Additions-Charges to Cost and Expenses		Deductions Write-offs		Balance at End of Year
Allowance for doubtful accounts:								
Year ended Dec. 31, 2000	$	–	$	436,984	$	436,984	$	–
Year ended Dec. 31, 1999		267,193		–		267,193		–
Year ended Dec. 31, 1998		–		267,193	$	–	$	267,193

SIGNATURES

Pursuant to the requirements of Section 13 or 15 of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

		Paulson Capital Corp.
		/s/ CHESTER L.F. PAULSON
Date: August 3, 2001	By:	Chester L.F. Paulson President

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