

SECURITIES AND EXCHANGE COMMISSION

FORM 10QSB/A

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d) [amend]

Filing Date: **2001-08-03** | Period of Report: **2001-03-31**
SEC Accession No. **0000912057-01-526549**

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FILER

PAULSON CAPITAL CORP

CIK: **704159** | IRS No.: **930589534** | State of Incorpor.: **OR** | Fiscal Year End: **1231**
Type: **10QSB/A** | Act: **34** | File No.: **000-18188** | Film No.: **1697537**
SIC: **6211** Security brokers, dealers & flotation companies

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PORTLAND OR 97204

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON D.C. 20549

FORM 10-QSB/A

(Amendment No. 1)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the Quarter ended March 31, 2001

Commission file number: 0-18188

PAULSON CAPITAL CORP.

Exact name of registrant as specified in its charter

Oregon

(State of incorporation)

93-0589534

(I.R.S. Employer Identification)

811 S.W. Naito Parkway

Portland, OR

(Address of principal executive offices)

97204

(Zip Code)

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

Check whether the issuer (1) filed all reports required to be filed by Sections 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 / /

Number of shares outstanding of each of the issuer's classes of common stock, as of May 10, 2001:

Common stock, no par value—3,263,866 shares

Transitional Small Business Disclosure Format Yes / / No /x/

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PAULSON CAPITAL CORP. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

(unaudited)

	3/31/01	12/31/00
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 127,940	\$ 104,309
Receivable from clearing organization	4,175,585	8,878,083
Notes and other receivables	813,884	1,247,520
Trading securities, at market value	1,103,954	1,305,989
Investment securities, at market value	13,828,651	13,063,135
Underwriter warrants, at estimated fair value	-	-
Prepaid and deferred expenses	273,292	865,986
Deferred income taxes	5,298,000	5,298,000
Total current assets	25,621,306	30,763,022
NOTE RECEIVABLE	105,374	103,551
FURNITURE AND EQUIPMENT, net	467,611	509,676
INVESTMENT IN REAL ESTATE	169,900	169,900
	\$ 26,364,191	\$ 31,546,149
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 185,827	\$ 194,399
Payable to clearing organization	713,122	828,859
Compensation, employee benefits and payroll taxes	370,658	1,037,465
Securities sold, not yet purchased, at market value	93,749	31,496
Income taxes payable	719,251	3,896,000
Total current liabilities	2,082,607	5,988,219
Deferred income taxes	39,100	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, 3,276,866 and 3,367,366, respectively	1,059,196	1,080,011
Retained earnings	23,183,288	24,438,819
Total shareholders' equity	24,242,484	25,518,830
	\$ 26,364,191	\$ 31,546,149

The accompanying notes are an integral part of these statements.

PAULSON CAPITAL CORP. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF OPERATIONS

for the three month periods ended March 31, 2001

and March 31, 2000 (unaudited)

	3/31/01	3/31/00
Revenues		
Commissions	\$ 1,931,901	\$ 6,348,435
Corporate finance	371,382	15,744
Investment income	(854,566)	17,763,423
Trading income	215,977	831,657
Interest and dividends	10,864	20,024
Other	673	2,694
	<u>1,676,231</u>	<u>24,981,977</u>
Expenses		
Commissions and salaries	2,016,889	8,019,576
Underwriting expenses	217,397	4,922
Rent, telephone and quotation services	255,104	288,665
Interest expense	3	-
Professional fees	71,599	99,920
Bad debt expense	30,000	30,155
Travel and entertainment	62,201	52,579
Settlements	1,050	20,000
Other	338,816	1,282,076
	<u>2,993,059</u>	<u>9,797,893</u>
Earnings (loss) before income taxes	(1,316,828)	15,184,084
Provision for income taxes		
Current	(526,730)	4,128,000
Deferred	-	1,945,000
	<u>(790,098)</u>	<u>9,111,084</u>
Net Earnings (Loss)	\$ (790,098)	\$ 9,111,084
Earnings (loss) per share, basic and diluted	\$ (0.24)	\$ 2.57
Weighted average number of shares outstanding, basic	3,325,833	3,541,235
Weighted average number of shares outstanding, diluted	3,328,349	N/A

The accompanying notes are an integral part of these statements

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
For the three year period ended December 31, 2000
and the three months ended March 31, 2001 (unaudited)

	Common Stock		Retained Earnings
	Shares	Amount	
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
Redemption of common stock	(90,500)	(20,815)	(465,433)
Net loss for year to date	-	-	(790,098)
Balance at March 31, 2001	3,276,866	\$ 1,059,196	\$ 23,183,288

The accompanying notes are an integral part of these statements

PAULSON CAPITAL CORP. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
for the three month periods ended March 31, 2001 and March 31, 2000

	3/31/01	3/31/00
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Net earnings (loss)	\$ (790,098)	\$ 9,111,084
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities		
Unrealized (appreciation) depreciation on investment securities	1,707,537	(5,118,960)
Realized gain on investment securities	(852,971)	(12,644,464)
Depreciation and amortization	50,602	42,222

Deferred income taxes	–	1,945,000
Change in assets and liabilities		
Receivables	5,134,311	(17,370,838)
Trading securities	202,035	(868,172)
Prepaid and deferred expenses	592,694	83,159
Accounts payable and accrued liabilities	(791,115)	8,691,604
Securities sold, not yet purchased	62,253	(470)
Income taxes payable	(3,176,749)	3,349,600
	<u>2,138,499</u>	<u>(12,780,235)</u>
Net cash provided by (used in) operating activities		
Cash flows from investing activities		
Purchases of investment securities	(10,890,701)	(46,977,794)
Proceeds from sale of investment securities	9,270,619	60,022,869
Additions to furniture and equipment	(8,538)	(51,471)
Proceeds from sale of furniture and equipment	–	–
	<u>(1,628,620)</u>	<u>12,993,604</u>
Net cash provided by (used in) investing activities		
Cash flows from financing activities		
Proceeds from exercise of stock options	–	–
Payments to retire common stock	(486,248)	–
Decrease in bank overdraft payable	–	–
	<u>(486,248)</u>	<u>–</u>
Net cash provided by (used in) financing activities		
	<u>\$ (1,628,620)</u>	<u>\$ 12,993,604</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	23,631	213,369
Cash and cash equivalents at beginning of period	104,309	48,210
	<u>104,309</u>	<u>48,210</u>
Cash and cash equivalents at March 31	\$ 127,940	\$ 261,579
	<u>\$ 127,940</u>	<u>\$ 261,579</u>
Cash paid during the three months for		
Interest	\$ 3	\$ –
	<u>\$ 3</u>	<u>\$ –</u>
Income taxes	\$ 2,650,019	\$ 778,400
	<u>\$ 2,650,019</u>	<u>\$ 778,400</u>

The accompanying notes are an integral part of these statements

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions for interim financial statements in Article 10 of Regulation S-X and, therefore, do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the interim financial statements include all adjustments (consisting only of normal recurring adjustments) necessary to state fairly the information shown therein. The nature of the Company's business is such that the results of any interim period are not necessarily indicative of results for a full fiscal year.

2. Securities Owned

Any losses from the disposition of securities are reflected in trading revenues on the income statement for the period.

3. Commitments and Contingencies

In October 1998, Russell W. Cummings, a former PIC customer, filed a lawsuit in California state court asserting claims against PIC and a former PIC registered representative alleging violations of the California Consumers Legal Remedies Act, fraud, negligent misrepresentation, breach of contract, tortious breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty and negligence. Plaintiff had agreed to arbitrate the matter before the NASD but never did so. Consequently, in July 2000, the California state court dismissed the case. In November 2000, the California state court reinstated the case and, in January 2001, Cummings filed an arbitration claim against PIC and its former registered representative. The complaint seeks \$250,000 in actual damages and \$1,500,000 in punitive damages. PIC has not had an opportunity to fully investigate this claim, but believes it has meritorious defenses and intends to defend this matter vigorously.

In August 2000, Patricia Staples, a former PIC customer, filed an NASD arbitration claim against PIC and one of its registered representatives alleging that PIC and its registered representative made certain misrepresentations and committed violations of law. Claimant is seeking \$100,000 in compensatory and punitive damages. Claimant's statement of claim is vague and does not specify the alleged misrepresentations or violations of law. PIC has filed a motion to require a more definite and certain statement of claim by claimant. PIC also has filed an answer denying any liability. PIC has not had an opportunity to fully investigate this matter but intends to defend this matter vigorously.

In January 2001, V.J.E. Enterprises, Inc. and Vincent and Diana Nartker, former PIC customers, filed a complaint with PIC regarding the handling of their account by PIC and one of its registered representatives. They have asserted that their account was mismanaged and that PIC failed to supervise its registered representative. They have requested that PIC pay them \$275,100. PIC has not had an opportunity to fully investigate this claim, but believes it has meritorious defenses and intends to defend this matter vigorously if an arbitration is filed.

In April 2001, Michael Swan, a PIC customer, complained that a PIC broker failed to place a stop loss order on a stock that Swan held in one of his PIC accounts. The price of the stock subsequently declined significantly and Swan now claims that PIC and its broker failed to place the stop loss, resulting in a loss of \$125,000. Swan has demanded that PIC pay this amount to him. PIC has not had an opportunity to fully investigate this claim.

An adverse outcome in certain of the matters described above could have a material adverse effect on PIC or the Company. PIC has been named in certain other legal proceedings and has received notice that certain customers may commence legal proceedings against PIC. The Company believes, based upon information received to date and, where the Company believes it appropriate, discussions with legal counsel, that resolution of this additional pending or threatened litigation will have no material adverse effect on the consolidated financial condition, results of operations, or business of the Company.

SIGNATURES

Pursuant to the requirements 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.

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

8

QuickLinks

[PART I-FINANCIAL INFORMATION](#)

[ITEM 1. FINANCIAL STATEMENTS](#)

[NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS \(Unaudited\)](#)

[SIGNATURES](#)