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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 26807

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING 12/31/01
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Paulson Investment Company, Inc.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

811 SW Naito Parkway, Suite 200

OFFICIAL USE ONLY
FIRM I.D. NO.

(No. and Street)

Portland

Oregon

97204

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Carol A. Rice

503 243-6044

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Grant Thornton LLP

(Name - if individual, state last, first, middle name)

111 SW Columbia, Suite 800

Portland

Oregon

97201

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

APR 23 2002

THOMSON
FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (05-01)

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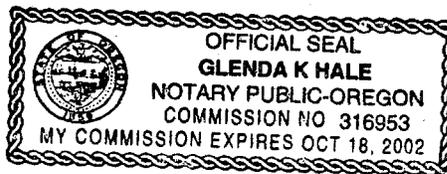
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OATH OR AFFIRMATION

I, Harry Striplin, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Paulson Investment Company, Inc, as of December 31, 2001, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Harry Striplin
Signature
SR. VP
Title

Glenda K. Hale
Notary Public



This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

COMPUTATION OF NET CAPITAL UNDER SEC RULE 15c3-1

December 31, 2001

Aggregate indebtedness			
Total liabilities			\$ 5,661,473
Less, nonaggregate indebtedness liabilities			<u>(3,993,125)</u>
Aggregate indebtedness			<u>\$ 1,668,348</u>
Net capital			
Total stockholder's equity			\$30,201,261
Adjustments to net capital pursuant to Rule 15c3-1			
Add			
Deferred tax liability related to unrealized gain on securities which have otherwise been deducted from net capital			2,561,500
Deduct			
Nonallowable assets			
Securities not readily marketable		\$(7,521,859)	
Blockage		(2,533,731)	
Receivables from noncustomers		(407,716)	
Other assets		<u>(989,750)</u>	(11,453,056)
Haircuts on securities			<u>(3,688,328)</u>
Net capital			17,621,377
Minimum net capital requirement			<u>111,223</u>
Excess net capital over minimum requirements			<u>\$17,510,154</u>
Ratio of aggregate indebtedness to net capital			<u>.09 to 1</u>

No reconciliation of the computation of net capital is provided as it is not different than the amount filed by the respondent.

