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OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden	
hours per response.....	12.00

**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 01/01/18 AND ENDING 12/31/18
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Paulson Investment Company, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

1720 W Division Street, 3rd Floor

(No. and Street)

Chicago

IL

60622

(City)

(State)

(Zip Code)

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

Malcolm A. Winks

312-940-8327

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Alvarez & Associates, Inc., Certified Public Accountants

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

9221 Corbin Avenue, Suite 165. Northridge

(Address)

(City)

CA
(State)

91324
(Zip Code)

SEC Mail Processing

CHECK ONE:

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

MAR 04 2019

Washington, DC

FOR OFFICIAL USE ONLY

*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 (11-05)

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RMS

OATH OR AFFIRMATION

I, Malcolm Winks, 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, LLC, as of December 31, 2018, 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:

Malcolm Winks
Signature

President/CFO

Title

Samantha Kling
Samantha Kling
Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- (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 15c3-1 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).

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of Illinois
County of Cook

Subscribed and sworn to (or affirmed) before me on this 1st day of March, 2019 by

Alex Winks proved to me on the basis of satisfactory evidences to be the person who appeared before me.

Notary Public *Samantha Kling*





ALVAREZ & ASSOCIATES, INC
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Equity Owner of Paulson Investment Company, LLC;

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Paulson Investment Company, LLC (the "Company") as of December 31, 2018, the related statements of income, changes in member's equity, and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The information contained in Schedules I and II ("Supplemental Information") has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The Supplemental Information is the responsibility of the Company's management. Our audit procedures included determining whether the Supplemental Information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the Supplemental Information. In forming our opinion on the Supplemental Information, we evaluated whether the Supplemental Information, including its form and content is presented in conformity with 17 C.F.R. § 240.17a-5. In our opinion, Schedules I and II are fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Alvarez & Associates, Inc.

Alvarez & Associates, Inc.

We have served as the Company's auditor since 2018.

Northridge, California

March 01, 2019



Paulson Investment Company, LLC
Statement of Financial Condition
December 31, 2018

Assets	
Cash and cash equivalents	\$ 1,255,715
Receivables from clearing organizations	364,363
Notes and other receivables, net	586,840
Equities securities, at fair value	1,126,962
Warrant securities, at fair value	3,024,024
Fixed assets, net of accumulated depreciation and amortization of \$184,727	46,810
Prepaid expenses and other assets	<u>404,284</u>
Total Assets	<u><u>\$ 6,808,998</u></u>
 Liabilities and Member's Equity	
Liabilities	
Accounts payable and accrued expenses	\$ 352,453
Compensation, employee benefits and payroll taxes	352,522
Underwriter stock payable to employees, at fair value	471,990
Margin securities borrowing	207,283
Other liabilities	<u>61,576</u>
Total Liabilities	<u><u>1,445,824</u></u>
 Member's Equity	 <u><u>5,363,174</u></u>
 Total Liabilities and Member's Equity	 <u><u>\$ 6,808,998</u></u>

See accompanying notes to the financial statements

Paulson Investment Company, LLC
Statement of Income
For the Year Ended December 31, 2018

Revenue	
Commissions	\$ 11,872,608
Net income from trading and marketable securities	(1,793,382)
Revenue from underwriting, including warrants received	29,917,214
Other	558,443
	<u>40,554,883</u>
Expenses	
Commission expense, including warrants distributed	32,066,621
Salaries and benefits	2,562,049
Rent	553,715
Insurance	342,126
Legal services	270,886
Underwriting	179,183
Regulatory	229,938
Travel and entertainment	217,899
Information systems	103,274
Professional fees	258,683
Clearing charges	487,299
Market data and routing	236,868
Communications	76,903
Office expense	108,769
Interest	(9,232)
Depreciation and amortization	92,934
Taxes	18,463
Settlements	376,125
Bad debt expense	204,701
Other	71,322
	<u>38,448,527</u>
Net Income	<u>\$ 2,106,356</u>

See accompanying notes to the financial statements

Paulson Investment Company, LLC
Statement of Changes in Member's Equity
For the Year Ended December 31, 2018

	Member's Equity
Member's Equity, December 31, 2017	\$ 2,791,958
Capital contributions	\$ 1,129,000
Capital distributions	(664,140)
Net Income	2,106,356
Member's Equity, December 31, 2018	\$ 5,363,174

See accompanying notes to the financial statements

Paulson Investment Company, LLC
Statement of Cash Flows
For the Year Ended December 31, 2018

Cash Flows from Operating Activities:	
Net income	\$ 2,106,356
Changes in net loss not requiring the use of cash:	
Depreciation and amortization	92,934
Changes in operating assets and liabilities:	
Receivables from brokers and clearing organizations	(116,500)
Equity securities, at fair market value	(437,653)
Warrant securities at fair market value	(2,787,025)
Fixed income securities, at fair market value	37,600
Notes and other receivables	173,110
Trading software	(75,000)
Other assets	(143,108)
Accounts payable and accrued expenses	51,696
Compensation, employee benefits and payroll taxes	(196,482)
Margin securities borrowing	207,283
Underwriter stock payable to employees	471,990
Other liabilities	(26,225)
Net cash used in operating activities:	<u>(641,024)</u>
Cash Flows used in Investing Activity:	
Purchase of fixed assets	<u>(50,771)</u>
Net cash used investing activities:	(50,771)
Cash Flows from Financing Activity:	
Capital Distribution	(664,140)
Capital Contributions	1,129,000
Cash flows provided by financing activity	<u>464,860</u>
Net Decrease in Cash	<u>(226,935)</u>
Cash and cash equivalents, Beginning of Year	<u>1,482,650</u>
Cash and cash equivalents, End of Year	<u>\$ 1,255,715</u>
Supplemental cash flow information:	
Interest expense	\$ -
Income taxes	\$ -
Non-cash activity:	
Receipt of underwriter stock	\$ 317,241
Receipt of underwriter warrants	\$ 27,668,323
Distribution of underwriter stock payable to employees	\$ 355,148
Distribution of underwriter warrants payable to employees	\$ 22,587,875
Amortization of notes receivable	\$ 131,006

See accompanying notes to the financial statements

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

1. Organization and Nature of Business

Paulson Investment Company, LLC (the "Company") is a registered broker-dealer, primarily acting as managing underwriter, placement agent or selling group member of initial and follow on public offerings, private investments in public equity instruments and private placements for smaller companies. In addition, the Company also acts as a broker and market maker in executing customers' orders for the purchase and sale of marketable securities on their behalf on a fully disclosed basis with its clearing organizations, RBC Correspondent Services and Vision Financial Markets (the "Clearing Brokers"). The Company conducts business throughout the United States, and is registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Company's sole member is its parent company Paulson Capital Holding Company, LLC.

2. Summary of Significant Accounting Policies

Method of Accounting - The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenue in the accounting period in which revenue is earned regardless of when cash is received, and recognizes expenses in the accounting period in which expenses are incurred regardless of when cash is disbursed.

Management's use of Estimates and Assumptions - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. Actual results could differ from those estimates.

Revenue Recognition -

Private Placements and Underwriting

The Company earns private placement fees in securities offerings in which the Company acts as a placement agent, such as PIPES and convertible debt offerings. Fee revenue from private placements and other capital raising transactions is recognized when the underlying transaction is completed (the closing date of the transaction). The revenue is determined based on the terms in each placement agent agreement and is recognized after the performance obligations noted in the agreement have been satisfied. Placement agent fees are recognized gross of transaction-related costs. Such transaction-related costs are recorded in the reporting period as the associated revenue, when the actual costs are known or estimable. Transaction-related costs are expensed in the event client engagement are terminated for any reason.

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

2. Summary of Significant Accounting Policies (continued)

The Company earns underwriting fees from securities offerings in which the Company acts as an underwriter or selling group member, such as initial public offerings, follow-on equity offerings, and debt offerings. Fee revenue relating to underwriting commitments is recorded at the point in time when all significant items relating to the underwriting process have been completed and the amount of the underwriting revenue has been determined. Generally, this is the point at which all of the following have occurred: (i) the issuer's registration statement has become effective with the SEC or the other offering documents are finalized; and (ii) the Company has been informed of the number of securities that it has been allotted. Underwriting fees are recognized gross of transaction-related costs. Such transaction-related costs are recorded in the reporting period as the associated revenue, when the actual costs are known or estimable. Transaction-related costs are expensed in the event client engagement are terminated for any reason.

Revenue from the receipt of private placement and underwriter warrants is recognized when the transaction has been completed and the warrants have been received from the issuer based on the estimated fair value of the securities using the Black-Scholes option pricing model taking into account the exercise price, remaining life of the warrants, the current price of the underlying stock, expected volatility of the stock price, expected dividends from the stock, and the risk-free interest rate for the remaining term of the warrant.

Advisory Fees

The Company's investment banking income also includes revenues earned in connection with advising companies, principally in mergers, acquisitions and restructuring transactions. The Company records advisory revenues at the point in time, gross of related expenses, when the services for the transactions are completed under the terms of each assignment or engagement, typically the transaction's closing date. Transaction-related costs are recorded as described above.

Commissions

Commission revenue includes fees from executing and clearing client transactions and commission sharing arrangements. These fees are recognized on a trade-date basis. The Company believes the performance obligation is satisfied on the trade date because that is when the underlying financial instrument and the buyer and seller are identified, the pricing is agreed upon and the risks and rewards of the ownership have been transferred.

Cash Equivalents - Cash equivalents consist of highly liquid investments with maturities of three months or less.

Receivable from Clearing Organizations - Payments, commissions, and other amounts receivable from RBC Correspondent Services and Vision Financial Markets.

Fixed Assets - Fixed assets are stated as cost, less accumulated depreciation and amortization. Furniture and equipment depreciation is generally computed using the straight-line method over their estimated useful lives (typically 3 to 5 years). Leasehold improvements are amortized over the lesser of their estimated useful life or the remaining lives of the related leases.

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

2. Summary of Significant Accounting Policies (continued)

Investments in Securities – The Company values investments in marketable securities at the last sales price as of the last day of the period. The Company records such investments on a trade date basis and values them at fair value. Realized and unrealized gains and losses from securities traded in the normal course of business are reflected in net gain or loss from trading and marketable securities on the statement of income.

Income Taxes – The Company is organized as an LLC and has elected to be taxed as a partnership. As such the Company is not subject to income taxes. Taxes, if any, are the responsibility of the member. The member is required to report separately on their income tax return the taxable income or loss of the Company.

Government and other Regulation – The Company's business is subject to significant regulation by various governmental agencies and self-regulatory organizations, including the SEC and FINRA. Such regulation includes, among other things, periodic examinations by these regulatory bodies to determine whether the Company is conducting and reporting its operations in accordance with the applicable requirements of these organizations. As a registered broker dealer, the Company is subject to provisions of the SEC's net capital rule (Rule 15c3-1) which requires the Company maintain a minimum net capital, as defined. With respect to the SEC's customer protection rule (Rule 15c3-3) the Company operates under paragraph (k)(2)(ii) and, accordingly, is exempt from the remaining provisions of the rule.

3. Securities Measured at Fair Value on a Recurring Basis

The Company records its equity and warrant securities at fair value. The accounting standard for fair value which provides a framework for measuring fair value clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the reporting date. The accounting standard establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company's Level 1 assets consist of equity securities. The Company uses quoted market prices in valuing these assets.

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

3. Securities Measured at Fair Value on a Recurring Basis (continued)

The Company's Level 3 assets consist of Underwriter Warrants received in connection with investment banking services rendered. These warrants include warrants owned outright by the Company, and also warrants in which certain employees have a claim as a result of their compensation structure. These warrants generally have a five to seven year expiration date and vest immediately. The Company values these warrants using the Black-Scholes Option Pricing Model, which takes into account five specific inputs: stock price, risk free rate, exercise price, time remaining and price volatility. The first four of these inputs are relatively objective, as they are based on quoted information or known facts. The price volatility, which after the stock price is the most influential factor in determining valuation, is more subjective. The volatility input is derived based on a volatility index of comparable public companies standard deviations of price matched to the remaining time duration of each warrant. There is no assurance that the Company will be able to exercise any of these warrants in a way that will realize the fair value that has been recorded in the financial statements based on this model.

The following table represents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2018:

	Level 1	Level 2	Level 3	Total
Equity securities	\$ 980,525	-	\$ 146,437	\$ 1,126,962
Underwriter warrants	-	-	3,024,024	3,024,024
	<u>\$ 980,525</u>	<u>\$ -</u>	<u>\$ 3,170,461</u>	<u>\$ 4,150,986</u>

The inputs or methodology used for valuing securities is not necessarily an indication of the risk associated with investing in those securities.

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

3. Securities Measured at Fair Value on a Recurring Basis (continued)

The following is a summary of activity related to the Company's Level 3 financial assets and liabilities:

	Underwriter Stocks	Underwriter Warrants	Underwriter Stocks Payable to Employees	Underwriter Warrants Payable to Employees
Balance, December 31, 2017	\$ 689,309	\$ 236,999	\$ -	\$ -
Fair value of securities received included as a component of revenue from underwriting	317,241	27,668,322		
Fair value of securities received included as a component of commission expense			154,620	22,587,875
Fair value of warrants exercised for stock		(50,782)		
Net loss included as a component of net loss from trading and marketable securities	(114,333)	(1,750,501)		
Fair value of underwriter stock and warrants distributed to employees	(56,471)	(22,587,875)	(56,471)	(22,587,875)
Fair value of warrants distributed to parent company		(492,139)		
Transfer of securities from Level 3 to Level 1	(689,309)			
Balance, December 31, 2018	\$ 146,437	\$ 3,024,024	\$ 98,149	\$ -

The following presents a summary of quantitative information about level 3 fair value measurements:

	Fair Value at December 31, 2018	Valuation Technique	Unobservable Input	Range		
				Minimum	Maximum	Average
Underwriter warrants	3,024,024	Black-Scholes Option Pricing	Volatility of of underlying			
Underwriter warrants payable to employees	-	Model	company	55.8%	310.5%	161.3%

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

4. Notes and other receivables, net

The Company has both forgivable notes receivable and other standard receivables.

As of December 31, 2018, the forgivable notes receivable totaled \$360,500. Such notes are with employees, are of one to five-year durations, bear between 1% and 5% interest, and are forgivable over stated periods if employees meet certain employment length and performance milestones. As per the Company's policy, such loans are amortized on a straight-line basis over the life of the respective loans as commission expense, and as of December 31, 2018, the unamortized portion was \$178,917 which is included in the Notes and Other Receivables on the statement of financial condition. While these loans do contain a stated interest, interest is not accrued as it is likely that these amounts will be forgiven as the notes are forgiven. In the unlikely event these loans are not forgiven because the terms of the forgiveness are not met, the full amount of the loan, along with the accrued interest shall be due and payable to the Company.

The Company also has receivables, primarily from representatives for draws, advances and expenses in excess of commissions. As of December 31, 2018, the full value of these receivables is \$242,584. In addition, the Company has receivables from customers and affiliates of \$195,339. The total value of \$437,923 is included in the Notes and Other Receivables on the statement of financial condition.

Receivables are reviewed on a quarterly basis by management and, if events or changes in circumstances cause doubt as to the collectability of contractual payments, a receivable will be assessed for impairment. The Company considers a receivable to be impaired when, based on current information and events, it believes it is probable that the Company will be unable to collect all amounts due according to contractual terms of the receivable agreement. When management determines collection to be doubtful, allowance for amounts receivable is recorded and the receivable is placed on a non-performing (non-accrual) status. Payments received on non-accrual receivables are applied first to reduce the outstanding interest, and then applied to the receivable unless management determines impairment is likely in which case payments are applied to the outstanding receivable balance (cost recovery method).

Interest received on impaired receivables is recorded using the cash receipts method unless management determines further impairment is probable. No impairment loss is recorded if the carrying amount of the receivable (principal and accrued interest) is expected to be fully recovered through borrower payments and enforcement action against the borrowers collateral, if any.

Allowance for Doubtful Accounts

The conclusion that a receivable may become uncollectible, in whole or in part, is a matter of judgment. The company does not have a formal risk rating system. Receivables and the related accrued interest are analyzed on an individual and continuous basis for recoverability.

Delinquencies are determined upon contractual terms. A provision is made for doubtful accounts to adjust the allowance for doubtful accounts to an amount considered to be adequate, with due consideration to workout agreements, to provide for unrecoverable receivables and receivables, including impaired receivables. Other receivables and accrued interest, uncollectable receivables and related interest receivable are posted directly to the allowance account once it is determined that the full amount is not collectable.

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

4. Notes and other receivables, net (continued)

Allowance for receivables from employees principally consists of uncollectable unsecured forgivable promissory notes to registered representatives that are forgiven over a specific period, typically over five years, if the borrower remains an employee of the Company. Any amounts remaining under the note become due immediately when the individual either leaves the Company voluntarily or is terminated. Amounts from Corporate finance clients principally consist of bridge loans and other advances to underwriting clients.

The following is a summary of the Company's allowance for doubtful accounts:

Allowance		
Allowance for doubtful accounts as of December 31, 2017	\$	(30,000)
Bad debt expense		
Recoveries of assets previously written-off		-
Allowance for doubtful accounts as of December 31, 2018	<u>\$</u>	<u>(30,000)</u>

The notes and other receivables net balance of \$586,841 includes this allowance for doubtful accounts.

5. Fixed Assets

As of December 31, 2018, the company had fixed assets totaling \$231,538 comprised of furniture and equipment of \$159,990 and leasehold improvements of \$71,548. As per the Company's policy, furniture and equipment are depreciated on a straight-line basis over the useful life of the respective assets. Leasehold improvements are amortized over the shorter of their estimated useful life or the lease term. As of December 31, 2018, the unamortized portion of all fixed assets was \$46,810.

6. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 and also that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2018, the Company had net capital of \$1,012,473 of which \$699,973 was in excess of its required net capital of \$312,500. The Company's net capital ratio was 1.22 to 1.

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

7. Commitments and Contingencies

The Company leases office space under the terms of various non-cancelable operating leases through 2025. The leases are all subject to escalations for the increases in the Company's pro rata share of real estate taxes and other operating expenses. The future annual lease payments for the years ending December 31 are as follows:

2019	532,362
2020	515,054
2021	512,495
2022	548,265
2023	520,376
2024	486,959
2025	248,548
	<u>\$ 3,364,059</u>

Rent expense for the year ended December 31, 2018 amounted to \$553,716.

The Company is exposed to various asserted and unasserted potential claims encountered in the normal course of business. As of December 31, 2018, and through the date of this report there is one arbitration claim pending with former customers of the Company. The Company's management feels the case has little merit and has no way of estimating any potential arbitration awards or settlements. Should any awards or settlements be paid out on either claim, the Company maintains insurance policies that cap its exposure at \$500,000 per claim.

There are no guarantees made by the Company that may result in a loss or future obligations as of December 31, 2018.

8. Market and Counterparty Risk

In the normal course of its business, the Company enters into financial transactions where the risk of potential loss due to changes in market (market risk) or failure of the other party to the transaction to perform (counterparty risk) exceeds the amounts recorded for the transactions.

The Company's policy is to continuously monitor its exposure to market and counterparty risk through the use of a variety of financial, position and credit exposure reporting and control procedures. In addition, the Company has a policy of reviewing the credit standing of each broker-dealer, clearing organization, customer and/or other counterparty with which it conducts business.

9. Concentrations of Credit Risk

During the year ended December 31, 2018, the Company earned 61.2% of its cash commission and underwriting fee revenues from three customers.

As of December 31, 2018, one employee's note receivable balance compromised 56.0% of the Company's total notes receivable balance.

During the course of the year ended December 31, 2018, the bank balances on occasion were in excess of the FDIC insurance limit.

Paulson Investment Company, LLC
Notes to Financial Statements
For the Year Ended December 31, 2018

10. Recently Issued Accounting Standards

Effective January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"). The new revenue recognition guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance requires an entity to follow a five step model to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). ASU 2016-02 requires that, at lease inception, a lessee recognize in the statements of financial condition a right-of-use asset, representing the right to use the underlying asset for the lease term, and a lease liability representing the liability to make lease payments. The ASU also requires that for finance leases, a lessee recognize interest expense on the lease liability, separately from the amortization of the right-of-use asset in the statements of operations, while for operating leases, such amounts should be recognized as a combined expense in the statements of operations. In addition, ASU 2016-02 requires expanded disclosures about the nature and terms of lease agreements and is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted. The Company is evaluating the effect of ASU 2016-02 on its statement of financial condition and on net capital.

11. Subsequent Events

Management has evaluated the impact of all subsequent events through the date the financial statements were available to be issued. Subsequent to December 31, 2018 the Company received \$400,000 in additional capital contributions from its Parent company Paulson Capital Holding Company, LLC.

SUPPLEMENTARY INFORMATION

Paulson Investment Company, LLC
Computation of Net Capital Pursuant
to Uniform Net Capital Rule 15c3-1 of the
Securities and Exchange Commission
December 31, 2018

Members' Equity	<u>\$ 5,363,174</u>
Less: Non-allowable Assets	
Notes and other receivables	586,841
Non-marketable securities, at fair value	3,170,461
Fixed assets, net of accumulated depreciation and amortization	46,810
Prepaid expenses and other assets	<u>404,284</u>
	<u>4,208,395</u>
Other Additions: Underwriter stock payable to employees	<u>98,155</u>
 Tentative Net capital	 1,252,933.46
Less: Haircuts	(147,079)
Less: Undue Concentration	<u>(93,382)</u>
Net capital	1,012,473
Less: Required Net Capital	<u>(312,500)</u>
Excess Net capital	<u>\$ 699,973</u>
 Computation of Aggregate Indebtedness	
Total liabilities	<u>\$ 1,238,542</u>
Minimum net capital required (6 2/3% of total aggregate indebtedness, \$100,000, or the average of the number of markets made in the preceding 30 days, whichever is greater)	<u>312,500</u>
Percentage of Aggregated Indebtedness to Net Capital	<u>122.33%</u>
Ratio of Aggregated Indebtedness to Net Capital	<u>1.22 to 1</u>

There are no material differences between the computation of Net Capital presented above and the Company's amended Form X-17a-5, Part IIA as of December 31, 2018, as filed.

See report of independent registered public accounting firm

Paulson Investment Company, LLC
Schedule II - Computation for Determination of the Reserve
Requirements and Information Relating to Possession or Control
Requirements for Brokers and Dealers Pursuant to SEC Rule 15c3-3
As of December 31, 2018

The Company is exempt from the provisions of Rule 15c3-3 under paragraph (k)(2)(ii) in that the Company carries no customer accounts and does not hold funds or securities for, or owe money or securities to, customers. Accordingly, there are no items to report under the requirements of this Rule.

See report of independent registered public accounting firm

INFORMATION REGARDING COMPLIANCE WITH RULE 15C3-3



ALVAREZ & ASSOCIATES, INC
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Equity Owner of Paulson Investment Company, LLC:

We have reviewed management's statements, included in the accompanying Assertions Regarding Exemption Provisions, in which (1) Paulson Investment Company, LLC identified the following provisions of 17 C.F.R. § 15c3-3(k) under which Paulson Investment Company, LLC claimed an exemption from 17 C.F.R. § 240.15c3-3: (k)(2)(ii) (the "exemption provisions") and (2) Paulson Investment Company, LLC stated that Paulson Investment Company, LLC met the identified exemption provisions throughout the most recent year ended December 31, 2018, without exception. Paulson Investment Company, LLC's management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about Paulsen Investment Company, LLC's compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

Alvarez & Associates, Inc.

Alvarez & Associates, Inc.

Northridge, California

March 01, 2019

Paulson Investment Company LLC
Exemption Report
Under Rule 17a-5(d)(4) of the
Securities and Exchange Commission
December 31, 2018

Paulson Investment Company, LLC (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. para. 240.17a-5, "Reports to be made by certain brokers and dealers"). This exemption report was prepared as required by 17 C.F.R. para 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

- 1) The Company claimed an exemption from 17 C.F.R. para 240.15c3-3 ("Customer protection - reserves and custody of securities") under the provisions of 17 C.F.R. para. 240.15c3-3 (k)(2)(ii) as the Company is an introducing broker dealer who clears all transactions with and for customers on a fully disclosed basis with another clearing broker.
- 2) The Company met the exemption provision in 17 C.F.R. para 240.15c3-3(k)(2)(ii) during the year ended December 31, 2018.

March 1, 2018

Signed,



Malcolm Winks, President/CFO

INFORMATION REGARDING THE
SECURITIES INVESTOR PROTECTION CORPORATION ASSESSMENT



ALVAREZ & ASSOCIATES, INC
CERTIFIED PUBLIC ACCOUNTANTS

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON APPLYING AGREED UPON PROCEDURES**

To the Directors and Equity Owner of Paulson Investment Company, LLC;

In accordance with Rule 17a-5(e)(4) under the Securities Exchange Act of 1934 and with the SIPC Series 600 Rules, we have performed the procedures enumerated below, which were agreed to by Paulson Investment Company, LLC and the Securities Investor Protection Corporation ("SIPC") with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) of Paulson Investment Company, LLC (the "Company") for the year ended December 31, 2018, solely to assist you and SIPC in evaluating Paulson Investment Company, LLC's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the Public Company Accounting Oversight Board (United States). The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose. The procedures we performed, and our findings are as follows:

1. Compared the listed assessment payments in Form SIPC-7 with respective cash disbursement records entries noting no differences;
2. Compared the Total Revenue amounts reported on the Annual Audited Report Form X-17A-5 Part III for the year ended December 31, 2018, with the Total Revenue amounts reported in Form SIPC-7 for the year ended December 31, 2018, noting no differences;
3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers noting no differences;
4. Recalculated the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers supporting the adjustments noting no differences; and
5. Compared the amount of any overpayment or underpayment, if any, in the current assessment with the Amended Form SIPC-7 on which it was computed noting no differences.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the applicable instructions of the Form SIPC-7. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

Alvarez & Associates, Inc.

Alvarez & Associates, Inc.

Northridge, California
March 01, 2019

☎ 818-451-4661

9221 Corbin Avenue Suite 165
Northridge, California 91324
www.AAICPAs.com



Paulson Investment Company, LLC
Schedule of SIPC Assessment and Payments (SIPC-7)
For the Year Ended December 31, 2018

Total Assessment for the year ended December 31, 2018	\$ 63,055
Less: Payment made with SIPC-6 on 7/29/2018	<u>28,534</u>
Balance Paid with SIPC-7 on 2/27/2019	<u>\$ 34,521</u>