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The Biggest of the Small

When it comes to small-cap investment banks, Paulson Capital is the major player.

BY ANTHONY W. HADDAD

As the leading investment bank for emerging companies in the United States and the largest independent, full-service retail broker-dealer in the Northwest, Paulson Capital (NASDAQ: PLCC) never wanted to compete with the big players. Chet Paulson, the founder and chairman of the company, has always believed that, when it comes to investment banking, smaller is better. The company can be described as a mini Merrill Lynch, with the ability to do everything Merrill does, only on a smaller scale.

Paulson specializes in deals that run between \$5 million and \$45 million, most of which are between \$10 million and \$20 million. "In the last couple of years, there hasn't been much of a micro-cap market," says Paulson. "It's just now beginning to show some signs of life."

Having completed more than 160 offerings during its 36-year history, the company has built its reputation on knowing a promising small-cap when it sees one. "We look for a group to convince us that they can be very successful with whatever their plan is," says Paulson. "It doesn't take us long to go through a company's documents to see if it's a candidate for us to work with."

In addition to investment banking, Paulson is composed of three main departments. With more than 150 brokers throughout the country, its retail segment is its largest. The company's trading department facilitates the trades and acts as a market maker for anywhere from 30 to 100 stocks. "And then there's our proprietary trading account that takes positions in those offerings," says CEO Trent Davis. "Those can have the most significant impact on our financials."

Over the last several years, the company has focused on green and security companies. "Our objective is to finance situations that will provide high rates of returns for investors," says Paulson. "Green

and security are growth industries." Two solar companies recently serviced by Paulson have done remarkably well. Ascent Solar Technologies (NASDAQ: ASTI) has nearly quadrupled since its IPO in 2006, and Day Star Technologies (NASDAQ: DSTI) has traded as high as six times its IPO. Notable security companies include ICOP Digital (NASDAQ: ICOP) and TASER International (NASDAQ: TASN). Paulson also played a significant part in the \$40 million Rodman & Renshaw offering (NASDAQ: RODM). "Our favorite trading platform is NASDAQ," said Paulson. "We're market makers, and we prefer it when there's a choice."

Not a fan of reverse mergers, Paulson only steps in to clean them up. "A lot of reverse mergers aren't loaded with the opportunities I'd like to see," says Paulson. "Although, occasionally there is a good deal that's been in a reverse merger, and with the proper reverse splits and getting the capitalization to make sense, you can do okay."

John Westergaard, a pioneer in small-cap company analysis, sat on Paulson Capital's board. Paulson carries on a tradition begun under his leadership with the annual Westergaard Conference, now in its 30th year. "He had cancer, and he knew his time was limited. He got us involved, and it was his legacy to our firm," said Paulson. "We made a commitment to continue the conference, and we're very proud to do it."

The next Westergaard conference will be held at the Waldorf-Astoria Hotel in New York on Nov. 13, 2007. It will feature 20 small-cap companies and a keynote speech by Lawrence Kudlow, host of CNBC's *Kudlow & Company* and economics editor for *National Review*. In recent years, the conference has grown significantly; last year, more than 800 investors attended. "We're always oversold," says Paulson, "so we have to make some tough choices about the companies that can attend." ■