



**FINANCIAL INDUSTRY REGULATORY AUTHORITY (FINRA)
NOTICE OF ACCEPTANCE**

Sent via Certified Mail, Return Receipt Requested (9314 8699 0430 0128 7386 12), First Class Mail and Email (aamin@paulsoninvestment.com)

TO: Harry Striplin, Chief Compliance Officer
Paulson Investment Company LLC
c/o Amal Amin, Esq.
8770 W Bryn Mawr Ave., Suite 1300
Chicago, IL 60631

FROM: FINRA
Department of Enforcement
200 Liberty Street
New York, NY 10281

DATE: November 22, 2024

**RE: Acceptance of Letter of Acceptance, Waiver, and Consent (AWC)
Paulson Investment Company LLC, CRD No. 5670, Matter No. 2022074346001**

Your above-referenced AWC has been accepted by FINRA's National Adjudicatory Council ("NAC") Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the NAC pursuant to FINRA Rule 9216. A copy of the AWC is enclosed.

You are reminded of your obligation, if currently registered, to update immediately your Form BD (Uniform Application for Broker-Dealer Registration) to reflect the conclusion of this disciplinary action. Additionally, you must notify FINRA in writing of any change of address or other changes required to be made to your Form BD.

A fine has been imposed. FINRA's Finance Department will contact you regarding payment.

If you have any questions concerning this matter, please call Shefali Singh at (646) 315-8698.

A handwritten signature in dark ink, reading "Shefali Singh", is positioned above a horizontal line.

Shefali Singh
Counsel

Enclosure

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2022074346001**

TO: Department of Enforcement
Financial Industry Regulatory Authority (FINRA)

RE: Paulson Investment Company LLC (Respondent)
Member Firm
CRD No. 5670

Pursuant to FINRA Rule 9216, Respondent Paulson Investment Company LLC submits this Letter of Acceptance, Waiver, and Consent (AWC) for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against Respondent alleging violations based on the same factual findings described in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Paulson has been a FINRA member since 1971, and is headquartered in Portland, Oregon. Paulson has 65 registered persons across 11 branch offices.

In January 2016, Paulson was censured and fined \$60,000 by FINRA, for conduct including the firm's supervisory failures regarding the review and evaluation of its registered representatives' outside business activities, in violation of NASD Rule 3010(b) and FINRA Rules 3270 and 2010.¹

OVERVIEW

From December 2020 to November 2021, Paulson failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures (WSPs), reasonably designed to achieve compliance with rules governing registered persons' proposed outside business activities. During this period, Paulson knew that one of the firm's registered representatives was engaged in outside business activities that involved managing an investment fund that provided loans to early-stage companies. However, the firm failed to evaluate the activities as required by FINRA Rule 3270.01, including by

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

failing to determine whether they constituted outside securities activities. As a result, Paulson violated FINRA Rules 3110, 3270.01, and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a disclosure made by the firm pursuant to FINRA Rule 4530.

FINRA Rule 3110(a) requires each member to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b) requires each member to establish, maintain, and enforce written procedures to supervise the types of businesses in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

FINRA Rule 3270 prohibits registered persons from engaging in any outside business activities unless they provide prior written notice to their member firm employer. FINRA Rule 3270 Supplementary Material .01 (Rule 3270.01) further requires that:

Upon receipt of a written notice under Rule 3270, a member shall consider whether the proposed activity will: (1) interfere with or otherwise compromise the registered person's responsibilities to the member and/or the member's customers or (2) be viewed by customers or the public as part of the member's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Based on the member's review of such factors, the member must evaluate the advisability of imposing specific conditions or limitations on a registered person's outside business activity, including where circumstances warrant, prohibiting the activity. A member also must evaluate the proposed activity to determine whether the activity properly is characterized as an outside business activity or whether it should be treated as an outside securities activity subject to the requirements of Rule 3280. A member must keep a record of its compliance with these obligations with respect to each written notice received and must preserve this record for the period of time and accessibility specified in SEA Rule 17a-4(e)(1).

FINRA Rule 2010 requires a member, in the conduct of its business, to observe high standards of commercial honor and just and equitable principles of trade. A violation of FINRA Rules 3110 or 3270 also constitutes a violation of FINRA Rule 2010.

From December 2020 to November 2021, Paulson's supervisory system was not reasonably designed to achieve compliance with its obligations under FINRA Rule 3270.01. The firm's WSPs required employees to disclose in writing to the firm any proposed outside business activity, and also required the firm to evaluate the proposed activity and determine whether it should be treated as an outside securities activity. However, the WSPs failed to reference or otherwise describe how the firm would supervise for compliance with the provision in FINRA Rule 3270.01 requiring the member to retain records regarding its evaluation of the proposed activity.

One of Paulson's registered representatives informed the firm in writing, during his onboarding in December 2020, of his proposed outside business activities, which involved managing an investment fund that provided loans to early-stage companies. Paulson approved the representative's proposed outside business activities. From at least April 2021 to November 2021, the representative facilitated four loans, which in total involved the investment of over \$3 million from 18 investors, and the representative was compensated for his work. For each transaction, the investors who provided the capital to fund the loans received secured notes in the early-stage company, along with warrants to purchase the company's stock. None of the investors were Paulson customers at the time of the transactions and none lost money in connection with the loans.

The representative notified Paulson via email when he closed the first loan and attached a term sheet that specified that the transaction involved securities. The representative also sent memos to Paulson for the three subsequent transactions, disclosing that he had raised money for the purpose of making loans to the companies at issue. Additionally, an executive officer of the firm referred two of the lending opportunities to the representative, who in turn paid a referral fee to the Paulson executive officer.

Paulson knew or should have known that the representative's outside business activities were investment-related. Nevertheless, Paulson failed to properly evaluate the representative's activities to determine whether: (i) they should be restricted or prohibited; (ii) they should be treated as outside securities activities, with any transactions recorded on the firm's books and records as required by FINRA Rule 3280; and (iii) they would interfere with or otherwise compromise the registered person's responsibilities to the firm or the firm's customers, or be viewed as part of Paulson's business. Paulson also did not maintain records regarding its evaluation or approval of the representative's proposed outside business activities.

Therefore, Paulson violated FINRA Rules 3110, 3270.01, and 2010.

B. Respondent also consents to the imposition of the following sanctions:

- a censure; and
- a \$40,000 fine.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a complaint issued specifying the allegations against it;
- B. To be notified of the complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made, and to have a written decision issued; and
- D. To appeal any such decision to the National Adjudicatory Council (NAC) and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS


Respondent understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
- C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
 3. FINRA may make a public announcement concerning this agreement and its subject matter in accordance with FINRA Rule 8313; and
 4. Respondent may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Respondent may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Respondent's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- D. Respondent may attach a corrective action statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this statement. This statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA.

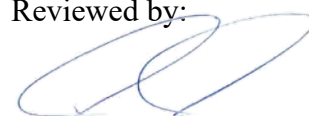
The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

11/14/2024
Date


Paulson Investment Company LLC
Respondent

Print Name: Trent Davis

Title: CEO


Reviewed by:


Amal Amin
Counsel for Respondent
Paulson Investment Company LLC
8770 W Bryn Mawr Ave., Suite 1300
Chicago, IL 60631

Accepted by FINRA:

11/22/2024
Date

Signed on behalf of the
Director of ODA, by delegated authority

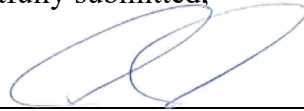

Shefali Singh
Counsel
FINRA
Department of Enforcement
200 Liberty Street
New York, NY 10281

ELECTION OF PAYMENT FORM

Respondent intends to pay the fine set forth in the attached Letter of Acceptance, Waiver, and Consent by the following method (check one):

- ☐ A check for the full amount;
- ☒ Wire transfer for the full amount;
- ☐ Credit card authorization for the full amount;² or
- ☐ The installment payment plan (only if approved by the Department of Enforcement and the Office of Disciplinary Affairs).³

Respectfully submitted,



November 14, 2024

Date

Paulson Investment Company LLC
Respondent

Print Name: Amal S. Amin

Title: General Counsel

² Credit card payment is only available for fines of \$50,000 or less. Only Mastercard, Visa, and American Express are accepted. If this method is chosen, the appropriate forms will be mailed to Respondent by FINRA's Finance Department. Credit card information should not be included on this Election of Payment Form.

³ The installment payment plan is only available for fines of \$5,000 or more. Certain interest payments, minimum initial and monthly payments, and other requirements apply. Respondent must discuss these requirements with the Department of Enforcement prior to requesting this method of payment. If this method is chosen and approved, the appropriate forms will be mailed to Respondent by FINRA's Finance Department.