

EXHIBIT I



Financial Industry Regulatory Authority

July 2, 2009

Mr. David Smith, President
McGinn, Smith & Co., Inc.
99 Pine Street - Capital Center
Albany, NY, 12207

Re: 2008 Cycle Examination of McGinn, Smith & Co., Inc.
Examination Number: 20080117152
Firm CRD Number: 8453

Dear Mr. Smith:

We would like to take this opportunity to thank you for the courtesies and assistance extended to our staff during the examination of your firm.

Enclosed for your information and review is a copy of the Examination Report based on our recent Financial/Operational, Sales Practice and Municipal examination. The exceptions in the Examination Report were previously discussed with your firm's representatives during the examination and exit meeting. Please provide a written response addressing each of the exceptions noted within 30 days from the date of this letter. Your written response should explain why these exceptions occurred, the corrective action taken to date to address each exception, any updated policies and procedures the firm will utilize to ensure that repeat deficiencies do not occur, and identify the individual responsible for implementing the corrective action and the updated policies and procedures. To the extent there is documentation available to demonstrate corrective action taken, your written response should include copies, when practical. For any exceptions in which corrective action is ongoing, please provide the date by which full implementation is expected and the individual responsible for monitoring the implementation effort.

FINRA Member Regulation's disposition related to this examination will be communicated to you under separate cover after management's review of the written response to this Examination Report. If you have any questions or comments concerning this report please contact the undersigned.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael H. Paulsen". The signature is fluid and cursive, written over the typed name.

Michael H. Paulsen
Examination Manager

cc: Gary K. Liebowitz, Senior Vice President/Regional Director
Eugene Bleier, Deputy District Director
David Chiu, Examination Manager
Belinda Chan, Associate Principal Examiner/Coordinator

Investor protection. Market integrity.

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Examination Number: 20080117152
Date of Examination Report: July 2, 2009

REPORT ON THE EXAMINATION OF
McGINN, SMITH & CO., INC.
ALBANY, NEW YORK

We have recently completed the Sales Practice examination of your firm. Our examination is not an audit and is not designed to be a substitute for management's responsibility to comply with appropriate securities rules and regulations.

The examination included reviews of the following regulatory areas:

- Administrative
 - FINRA Contact System (FCS)
 - Business Continuity Plan
 - Form Filings
 - MSRB Registration and Fees
 - Regulatory Transaction Fees
- Registration and Education
 - Qualification and Registration – Legacy NASD
 - Regulatory Element of Continuing Education
 - Firm Element of Continuing Education
- Employee Supervision
 - Monitoring Employee Activities
 - Monitoring for Insider Trading
- Firm Supervision
 - Correspondence & Internal Communications
 - Insider Trading Supervision
 - Supervisory Controls
 - Supervision
- Anti-Money Laundering
 - Suspicious Activity Reporting Compliance
 - Bank Secrecy Act Compliance
 - BSA Compliance for Foreign Correspondent and Private Banking Accounts
 - Testing of AML Compliance Program
- OFAC Compliance
- Net Capital Verification
- Customer Protection Rule Exemptions
- Customer Grievances
- Markups and Markdowns

- Customer Information and Disclosures
 - Customer Information Controls
 - Municipal Operations
 - Regulation S-P and Outsourcing
- Transaction Reporting
- Underwriting
 - Best Efforts and Contingent Offerings
 - Unregistered Offerings

EXCEPTIONS:

The following exceptions have been brought to the attention of the appropriate member organization personnel:

1. **Exception:**
The member organization was not in compliance with NASD Rule 3510(e) Business Continuity Plans.

Detail:

The firm could not supply evidence of providing written disclosure of the Business Continuity Plan (BCP) to new customers at account opening.

2. **Exception:**
The member organization was not in compliance with FINRA Bylaws Article IV, Section 1 -- Application for Membership.

Detail:

A review of Form BD revealed that the firm did not make a timely update. Specifically, Stephen Smith (CRD # 1123669) became Chief Compliance Officer in October, 2007, but the update denoting this change was not filed until March 28, 2008.

3. **Exception:**
The member organization was not in compliance with FINRA Bylaws Art. V, Sec. 2 - Application for Registration

Detail:

A review of the Form U-4 revealed the following:

- a. For George Lex (CRD #2755908) Form U-4 failed to reflect his employment location in Allentown, PA ; and

- b. For David Smith (CRD #2755908) Form U-4 only listed one outside business activity instead of nine, which the firm had mistakenly categorized as affiliates.

4. **Exception:**
The member organization was not in compliance with FINRA Bylaws Art. V, Sec. 3(b) - Notification of Terminations; Amendments to Notification

Detail:
The firm failed to file two (2) amendments to Form U-5 for former registered representative Mark Casolo (CRD#1158074) to reflect a complaint received and an arbitration reflecting damages greater than \$5,000.

5. **Exception:**
The member organization was not in compliance with NASD Rule 1031(a) – All Representatives Must Be Registered

Detail:
The firm maintained the registrations of the following three individuals who were not active in the firm's investment banking or securities business or not functioning as a representative, requiring registration:

- a. Richard Albert (CRD # 2372);
- b. Kathleen McGinn (CRD # 3266075); and
- c. Brian Shea (CRD # 2570872).

6. **Exception:**
The member organization was not in compliance with NASD Rule 3010(c)(1)(c) – Internal Inspections

Detail:
A review of branch office inspections revealed the firm failed to develop a schedule for periodic inspection of the following non-branch locations:

- a. Richard Albert (CRD # 2372) in Haverhill, MA;
- b. George Lex (CRD # 2755908) in Allentown, PA; and
- c. Kathleen Lex (CRD # 3266075) in Chicago, IL.

7. **Exception:**
The member organization was not in compliance with NASD Rule 3010(a) – Supervisory System

Detail:

A review of 28 registered representatives for attendance to the 2007 Annual Compliance Meeting revealed that one out of 28 or 3.6% was not in attendance. Specifically, the firm could not provide evidence that John Sanchirico (CRD #40999) attended the meeting.

This is a repeat violation of the previous exam # 20070072125

8. **Exception:**

The member organization was not in compliance with NASD Rule 2310 – Recommendations to Customers (Suitability)

Detail:

A review of forty-two (42) recommended private placement transactions indicated a failure to comply as in eleven (11), or 26% of the transactions, the firm failed to evidence they had obtained necessary information (investment objectives, customer's tax/financial status) in order to make an appropriate suitability determination.

9. **Exception:**

The member organization was not in compliance with NASD Rule 3010(d) – Review of Transactions and Correspondence

Detail:

The firm failed to provide evidence of principal review and approval on eight (8) pieces of written outgoing correspondence.

10. **Exception:**

The member organization was not in compliance with NASD Rule 3010(d)(3) - Review of Transactions and Correspondence, NASD Rule 3110(a)¹ – Books and Records, & SEA Rule 17a-4(b)(4) – Records to Be Preserved by Certain Exchange Members, Brokers, and Dealers.

Detail:

The firm failed to maintain certain electronic customer correspondence and internal communications sent from or received by non-firm e-mail accounts of registered representatives located at the King of Prussia, PA branch (CRD# 292388), Pawlet, VT branch (CRD# 317225) and Allentown, PA non-registered location.

¹ The NASD Rule 3110 (a) exception was identified during Examination Manager review and was not discussed during the Exit Meeting on December 15, 2008.

11. **Exception:**

The member organization was not in compliance with SEA Rule 17a-3(a)(2) – Records to be made by Certain Exchange Members, Brokers and Dealers

Detail:

The firm failed to maintain accurate books and records. Staff reviewed the firm's General Ledger, Trial Balance, Income Statement and Balance Sheet as of July 31, 2008 compared with bank statements, clearing firm statements and reconciliations. Staff increased the Preferred Dividend account (Acct# 6050111081) balance by \$1,926.66 based on the firm's reconciled balance.

12. **Exception:**

The member organization was not in compliance with SEA Rule 17a-5(a)(2)(ii) – Reports to Be Made by Certain Brokers and Dealers.

Detail:

The firm failed to accurately reflect their revenue from sales of investment company shares on the June 30, 2008 FOCUS Report.

13. **Exception:**

The member organization was not in compliance with MSRB Rule G-8 - Books and records to be made by municipal securities brokers

Detail:

Staff conducted a review of ten (10) municipal order tickets and found the following:

- a. 5 of 10 or 50% of order tickets did not have the time executed denoted on the electronic records. Of the 5 with time executed, 5 out of 5 did not include seconds.
- b. 3 of 10 or 30% of order tickets did not have the time of receipt denoted on the electronic records.

14. **Exception:**

The member organization was not in compliance with SEA Rule 17a-3(a)(6)(i) – Records to be Made by Certain Exchange Members, Brokers and Dealers

Detail:

Staff conducted a review of nine (9) corporate bond order tickets and found the following:

- a. 6 of 9 or 67% did not have time of execution; and

- b. 3 of 9 or 33% had time of execution, but seconds were not reflected on the time.

15. **Exception:**

The member organization was not in compliance with SEC Regulation S-P

Detail:

The firm failed to evidence that:

- a. New customers received the firm's initial privacy policy; and
- b. Existing customers that conducted only application way business through the firm received the annual privacy notice.

16. **Exception:**

The member organization was not in compliance with NASD Rule 3010(b)(1) – Written Procedures

Detail:

A review of the Written Supervisory Procedures (WSP's) revealed the firm had not established reasonable procedures in the following areas:

- a. Determining qualifications of supervisory personnel;
 - b. Disclosure of Control or Interest relating to Private Placements pursuant to SEC Rules 15c1-5 and 15c1-6;
 - c. Amending Form U-5 within 30 days of learning of facts or circumstances causing the current Form U-5 to be inaccurate;
 - d. Supervision of Outsourcing Arrangements;
 - e. Ensure that customer information is safeguarded;
 - f. Ensure that new technologies implemented will safeguard customer information;
 - g. The proper disposal of consumer report information;
 - h. Appropriate controls for reps that correspond from home computers or wireless devices;
 - i. Address the annual mailing of the privacy policy to non-clearing firm customers; and
 - j. Proper disclosures, suitability and review for structured product sales.
- In addition, the firm failed to implement the procedures as outlined in the WSP's for the following:
- k. Failure to receive principal approval prior to sending an e-mail in relation to any firm or investment related business;
 - l. Failure to maintain all e-mail communications;

- m. Requiring a new account form in documenting the firm's due diligence in learning the essential facts relative to every customer and every order;
- n. To maintain evidence that the privacy policy was mailed to new customers;
- o. All registered representatives attending the Annual Compliance Meeting;
- p. Provide the Business Continuity Plan disclosure to all new customers; and
- q. Timely and accurately update Form U-4.

17. **Exception:**

The member organization was not in compliance with NASD Conduct Rule 3011(b) – Anti-Money Laundering Compliance Program

Detail:

The firm failed to implement its written procedures for reviewing existing accounts against the OFAC list when it is updated.

The items in this report and the examination process were reviewed during an Exit Meeting at 99 Pine St, Albany, NY 12207 on December 15, 2008, with the following participants:

MEMBER ORGANIZATION PERSONNEL:

David Smith	President
Stephen Smith	Chief Compliance Officer
David Rees	Chief Financial Officer
Andrew Guzzetti	Managing Director

FINRA PERSONNEL:

Michael Paulsen	Examination Manager
Thomas Grygiel	Associate Principal Examiner
Scott Karas	Associate Principal Examiner
Steven Rowen	Senior Examiner

FINRA PERSONNEL NOT IN ATTENDANCE:

Alan Blumenthal, Principal Examiner/Coordinator

This form does not in any way constitute a waiver of the notification prohibitions set forth in 31 U.S.C. 5318(g) with respect to any suspicious activity report discussed herein. Consequently, any references in this letter to a suspicious activity report or its existence are confidential, and may not be disclosed by you to the subject of the report, or otherwise disclosed in a manner outside your firm that would lead to the subject of the report being notified. The improper disclosure of a suspicious activity report, either in contravention of section 5318(g) or of a related rule implementing that authority, is punishable by criminal and civil penalties. See 31 U.S.C. 5321 and 5322.