EXHIBIT R

BEFORE THE FINRA
CASE NO. 20090179845

In the matter of :
McGINN SMITH & COMPANY, :
INC. :

ORIGINAL

INVESTIGATIVE TESTIMONY OF
DAVID REES
WOODBRIDGE, NEW JERSEY
MONDAY, JANUARY 11, 2010

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ALSO PRESENT:

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MICHAEL H. PAULSEN, Examination Manager for Financial Industry Regulatory Authority

CHRISTOPHER D. RATTINER, Principal Examiner for Financial Industry Regulatory Authority

REBECCA SMITH, Principal Senior Examiner for Financial Industry Regulatory Authority

AFTERNOON SESSION:

MR. ROWEN: We're back on the record at approximately 1:50.

Q. Mr. Rees, what is First Line Trust?

A. I believe First Line Trust was money raised to lend to an alarm organization in Nevada or Utah.

Q. So First Line Trust -- what was your involvement with First Line Trust?

A. Again, tracking the funds as they came in, making sure that the brokers were paid a commission on their sales of it, recording transactions as they happened, tracking a loan that was made to them.

Q. And when did you become involved in First Line Trust?

A. Shortly after, I think, they had the idea to raise money to lend to this company. I'm not sure of the timeframe.

Q. Was it before you started with McGinn Smith?

A. No, no. That was a new venture that occurred sometime during my tenure there.

Q. And who else was involved with First Line Trust?

A. When you say "involved," in what capacity?

Q. In management, in investment decisions.

A. The management investment decisions would have been Dave Smith and Tim McGinn.

I might have been requested to set up a bank account or something like that but, typically, I learned about these things after something had started.

Q. What financial accounts were maintained for First Line?

A. We would have had an operating account and that's it. Probably all it really was was a bank account and some loan receivable.

Q. Who were the signatories on the account?

A. Mr. Smith, Mr. McGinn.

Q. Were you an authorized signatory?

A. No.

Q. How were the books kept for First Line?

A. We tracked that using our Quicken software.

Q. And that was at 99 Pine Street?

A. Yes.

Q. Were concerns expressed internally about First Line Trust?

A. There may have been some concern about them.

I don't recall all the specifics around the First Line loan. That was really handled by -- Mr. McGinn did most of the legwork and contact with the people at First Line.

Q. What were the concerns about?

A. The concerns that I recall were that it was not a very well-managed company, operationally, just didn't have a good handle on the process to track alarm billing and collections, things like that.

Q. Were there concerns about the profitability of First Line Trust?

A. I don't recall. I know there were some issues with First Line, about the receiver of the funds' operations, but I don't know how that rolled back to the First Line Trust.

Q. Are you aware of the current status of the First Line Trust?

A. I am not.

MR. RATTINER: How about a First Line receiver of funds -- what is the current status of First Line, not the trust, in Utah or Nevada?

THE WITNESS: I have no current

knowledge as to the trust or the company.

MR. RATTINER: When you were there, were you aware that First Line filed bankruptcy?

THE WITNESS: I don't know that I knew that they had filed bankruptcy. I knew that maybe they were considering it, but I didn't really get involved.

MR. RATTINER: At the time when they filed bankruptcy, would you be notified by Mr. McGinn or Mr. Smith of that?

THE WITNESS: I should have been, yes.

MR. RATTINER: Okay. You don't recall if you were?

THE WITNESS: I don't.

MR. RATTINER: Do you know if you wrote off your assets for First Line Trust based upon the bankruptcy filing?

THE WITNESS: I don't recall that happening, nor do I recall him saying, write it off.

MR. RATTINER: Okay.

Q. Were there ever any other investments of First Line Trust?

A. I think there with two PPMs, First Line and First Line Trust '08.

I mean, that's my extent of the

knowledge of the funding that went on for them.

Q. As far as First Line Trust's investments itself, they invested in -- it loaned money to the entity called First Line?

A. Correct. I believe that's all they did.

Q. What is SAI Trust?

A. SAI Trust was a trust that raised money to lend a proceeds to an alarm -- I don't know if they were a monitoring company or a wholesale monitoring company out of Chicago, and that one had been around for -- I think prior to my arrival at McGinn in 2002.

Q. And your involvement in SAI Trust, is that similar to the other entities we discussed?

A. Yes, we would make sure we paid the investors and see if the company had sent money that they owed McGinn to us, and then we would pay out the investors and track it on Quicken.

Q. Tracked on Quicken, and what financial accounts were maintained?

A. We would have had just the bank account that money would have come into from SAI, and we would have turned around and paid interest to investors on that one.

Q. Who were the authorized signatories on that account?

A. David Smith and Tim McGinn. I was not a signatory.

Q. What concerns were expressed internally about SAI Trust?

A. The concerns that Dave and Tim shared with me were that that alarm business is a very tough business, and they had debt on their books, and they were having trouble making their payments back to us.

Q. Can you specify what you mean by "that alarm business."

A. The alarm business, I should say.

Q. Because Mr. McGinn was intricately involved in the alarm business. Right?

A. He has a extensive knowledge of that industry, having been the CEO of Integrated Alarm Services.

Q. You said SAI started before you arrived at McGinn Smith.

A. Correct.

Q. And it has been a continued affiliated entities that have dealt in alarm companies, either owning or loaning money to alarm companies. Is that correct?

A. I believe that is correct, yes.

Q. So if the concerns regarding SAI Trust were about the trust business -- or about the alarm business in general, were there specific concerns about SAI internally? Because they didn't stop getting involved in the alarm business?

A. I don't know the scope of those conversations, whether it was a business mix at SAI or other operational issues.

I was not privy to those conversations about specifically what is it at SAI that's different than the alarm industry as a whole.

Q. Were there concerns about the profitability? Was there concerns about the viability of SAI?

I guess I want to make sure I get an understanding. You said you were aware of concerns being voiced, what were they?

A. I don't know if it was profitability or viability. Obviously, long-term concerns about profitability could lead to viability, but I don't know where the concern went from profitability to viability.

Q. What's the current status of SAI Trust?

A. I don't know, nor do I know about SAI, the company.

MR. NEWMAN: What was the status at the time you left?

THE WITNESS: They had a senior lender that may have called some of their loans, and I believe Mr. Smith and McGinn were working with either that senior lender or somebody else to restructure it.

I can't be more specific than that.

MR. NEWMAN: Okay.

Q. Were there discussions of writing off any of the four funds' loans to SAI Trust?

A. Those would have been decisions made after Mr. Smith and McGinn had done all of their analysis and due diligence and examining the situation.

I do recall that I was told to write that off specifically.

Q. What is Alset IP Management. I can spell it for you as I'm not sure how it's pronounced or --

A. Alset was a fund that was created to -- I believe the goal was to go out and purchase intellectual properties from universities that wanted to monetize some of their patent work, and then create a revenue stream for Alset.

Q. Who was involved with Alset IP Management?

A. A gentleman in our office, Tom Livingston, and there were other people outside of our organizations.

I can't remember their names. There was -- well, I can't remember their names.

Q. Where was it located?

A. I think they -- one of the partners was in Atlanta. I think there was somebody in Chicago. They were kind of scattered around.

Q. Were they housed in a location of McGinn Smith, the broker/dealer main office or branch?

A. Oh, yeah. Yeah, there was a couple of guys that worked out of New York City in some space in our building or in our New York City office, but the main person, I believe, was in Atlanta.

Q. What was your involvement with Alset IP?

A. Really, none. I don't -- I didn't do the books for them. I didn't record any transactions.

MR. NEWMAN: Where was that done, the books?

Where were the financial records maintained?

THE WITNESS: On Alset, I don't know. I would have recorded loans to Alset.

I'm not sure where the accounting was done. I don't know.

MR. NEWMAN: You described this as a fund, a mutual fund?

THE WITNESS: It was not a mutual fund. It was -- I don't know if, you know, part of my lack of legal knowledge, but an entity that was going to raise money and then purchase its intellectual property from various entities.

It wasn't a mutual fund. It was a trust fund.

MR. NEWMAN: Okay. Do you know how much money they raised?

THE WITNESS: Other than money that was provided through these income fund notes, I don't believe they raised any.

MR. NEWMAN: Was there any kind of offering memorandum or document that described the investment in this fund or this entity, Alset?

THE WITNESS: It was -- I'm sure there was some due diligence folders and files that we had, but as far as offering memoranda, I'm not aware of any.

MR. NEWMAN: Did they ever actually invest in this intellectual property?

THE WITNESS: The goal was to go out and buy them, and they were not successful in that.

MR. NEWMAN: Do you know there was approximately $8 million invested by the note entities in this entity, Alset?

THE WITNESS: I knew there were significant investments in it.

MR. NEWMAN: Did it concern you that that amount of money was invested in an entity that apparently didn't do anything?

THE WITNESS: Mr. Smith was concerned. I was concerned and, yes, there was some nervousness around that issue.

MR. NEWMAN: And how did you become aware of that?

THE WITNESS: I would be instructed to wire money to Alset IP up in Georgia, Atlanta, Georgia location, and after doing that for -- repeatedly, it became apparent that they were having trouble raising money on their own.

MR. NEWMAN: And at what point in time was that?

THE WITNESS: I don't know when it

started, 2005, 2006.

MR. NEWMAN: Do you know how much they were trying to raise? Independent of the note entities, how much money they were trying to raise?

THE WITNESS: Supposedly, a lot of money, a hundred million dollars.

MR. NEWMAN: So when you and/or Mr. Smith became aware of the fact that they were having difficulty raising money to purchase intellectual property, was there any discussion about not investing any further note entity money into this project?

THE WITNESS: Mr. Smith had numerous conversations with Mr. Livingston concerning his involvement and the status of their fund-raising project.

I was not privy to a lot of those conversations.

MR. NEWMAN: Were you a party to any of the conversations?

THE WITNESS: No.

MR. NEWMAN: So how do you know they occurred?

THE WITNESS: I would see Mr. Livingston and Mr. Smith go into an office together. I guess

I'm assuming that's what those conversations were about.

MR. NEWMAN: And what is Mr. Livingston's position at McGinn Smith?

THE WITNESS: He has since left McGinn Smith.

MR. NEWMAN: When did he leave?

THE WITNESS: Five months ago, four months ago.

MR. NEWMAN: At the time you were there, what was his position?

THE WITNESS: He was an executive vice president. He also owned a 20 percent share of the company that he purchased from Mr. McGinn.

MR. NEWMAN: And do you know what his equity position was or ownership position was in Alset?

THE WITNESS: I do not know that number.

MR. NEWMAN: Did McGinn or Smith have any ownership position in Alset, either directly or one of their affiliated companies?

THE WITNESS: I don't know, to answer that question.

Q. Are you aware of what the $8 million was used for if they never bought the intellectual

outside, 10 percent?
THE WITNESS: I wouldn't want to guess.
MR. NEWMAN: Maybe do it another way. Would you say that the majority of the investments made by the note entities were made by companies in which McGinn Smith had a stake or an interest?
THE WITNESS: I wouldn't say majority, but I would have to see the books to pinpoint that.
Q. What is State Street Hospitality?
A. That's a hotel in Albany, New York, a boutique 74-room hotel that was built -- and I'm not sure what year it was built, 2005 or 2006, maybe.
Q. So State Street Hospitality is the actual hotel?
A. That is -- I believe an operating company bought a hotel, and I don't know why that structure was set up, other than -- you know, I don't do their accounting, but I believe that's the operating or holding company.
Q. Who was involved in State Street Hospitality?
A. Nobody affiliated with McGinn Smith.
MR. RATTINER: Who is Gary Smith?
THE WITNESS: A person in the Albany business community that has the last name of Smith,

but has years of experience running the Desmond Hotel in Albany.

MR. RATTINER: Unrelated to --

THE WITNESS: Unrelated to David Smith.

MR. RATTINER: What was the connection that brought State Street Hospitality to McGinn Smith?

THE WITNESS: I don't know. They were looking to raise money to do this hotel, and I think they wanted to keep the money local, and so we ended up making a pitch for what I think is like -- I think it's a subordinated loan behind a large bank in town that put in, I don't know, 8 or $10 million of their own capital.

Q. Was money ever raised through the broker/dealer for State Street Hospitality?

A. We did raise money, yes, we did. There is a limited partnership that was set up, 74 State, LP.

Q. 74 State, LP was the entity that money --

A. It was the entity that put money into 74 State either LLC, which is the hotel or the hotel's operating company. So, yes, there's an equity interest through the broker/dealer.

Q. Just so I'm clear, customers would have bought into a private placement called 74 State?

A. LP.

Q. Which is a holding company for the hotel?

A. No. It's a trust.

MR. PAULSEN: And that trust would have been invested in State Street Hospitality?

THE WITNESS: I believe that's correct.

MR. PAULSEN: As the operating company?

THE WITNESS: I believe so.

MR. RATTINER: So in this case, we would have one of the four notes loaning money to 74 State Street, and we're also doing a separate offering through the BD, where retail customers would be buying?

THE WITNESS: A limited partnership interest.

MR. RATTINER: So were fees paid to the broker/dealer by State Street Hospitality.

THE WITNESS: To the extent we would have raised money for them, yes, we would have received an underwriting fee.

Q. For the 74 State raise?

A. For the 74 State, LP raise.

this one here.

The next paragraph says, "Additionally, TAIN may have lent funds to Pacific for Yukik Schreiber redemption." What was that?

THE WITNESS: Pacific Trust was -- I think it was an alarm deal that was originally marketed to a group of investors, and Ms. Schreiber wanted to get her money out of it, and I can't remember the specifics, and actually, I think that when the trust matured, I think we forgot about it, because it was a very small trust, and she wanted to get her money out, and then we were redeeming her over a -- through a set schedule of payments over an eight-or-nine-month period.

MR. RATTINER: That sentence goes on to say that: "They, too, will need a letter of credit dating back to the date of first funding, again, 12 percent."

So this is another one that we're backdating or recreating, if you will?

THE WITNESS: Okay.

MR. NEWMAN: A separate form?

THE WITNESS: Yes.

MR. RATTINER: You also say, "I believe DOS has a purchase agreement for FIIN's purchase of

FEIN."

What was your understanding of the loaning of FIIN's money into FEIN and/or vice-versa?

THE WITNESS: My assumption was that their loan documents had been drawn up.

Now, upon review, if they weren't, there was certainly an effort to put the documents in place so that there was the -- so that it would match the transactions that were contemplated at the time.

MR. RATTINER: But you don't know what the intent of -- FIIN's purchase of FEIN, what was the intent of that? Was it to pay interest?

THE WITNESS: No, I don't think FIIN lent. This wasn't the loan agreement. I don't know if -- I believe there were old alarm trusts, SPT2, 3, and 4 which are referenced in the second sentence.

MR. RATTINER: Right.

THE WITNESS: And my understanding is that FEIN, at one point, owned SPT2 and 3, and then sold one of those to FIIN, and I don't know if there was the necessary documentation that went along with the original purchase that was contemplated when, I guess, PT2 -- whatever FEIN or FIIN originally purchased.

MR. RATTINER: What's the economic gain

of shuffling between these four notes?

THE WITNESS: Certainly, Mr. Smith can speak to that better than I can, but at the time, they felt that the SPTs were generating -- were in an alarm contract pool that was generating recurring income on a monthly basis, and it would be advantageous to have some monthly income stream in one of the income note funds. I don't know why --

MR. RATTINER: It was already bought by one of the income notes, just being transferred to a different one?

THE WITNESS: Sold to a different one, right. I don't know why it was not purchased directly by what appears to be FIIN, but I can't speak to that, other than that was my theory of the theory behind that.

MR. RATTINER: Okay. What prompted this e-mail?

I mean, at the top, we'll see your initial paragraph that "Dave Smith asked me to pull the following items together."

I believe this is after you left the firm or right around the same timeframe, obviously.

THE WITNESS: There was a concerted effort to make sure that, you know, we had all the

MR. ROWEN: Can I have this marked as Exhibit 9.

(Rees-9, Excel spreadsheet, is received and marked for identification.)

Q. I'm handing you Exhibit 9 in this matter. This is an Excel spreadsheet of data imported from the Quicken register report of all transactions in TDM Cable's DT FAIN registered account.

The staff has deleted totals and any blank columns. The staff also added the TDM Cable title at the top and the balance at the bottom.

Take a moment to review it and if you can compare that with the highlighted transactions on page 2 of Exhibit 7.

Based on this document, how was FAIN paid back for these two loans of $635,000 and $300,000?

A. It appears that First Line Trust put money into TDM Cable, which paid off FAIN and Verifier Trust also put money in.

Q. So it looks like First Line absorbed most of the debt? First Line along with\Verifier Trust absorbed the debt that was owed to FAIN?

A. That seems correct.

Q. We discussed First Line Trust earlier. Right? And you said that that was controlled by Smith and McGinn or, in fact, investment decisions were made by Mr. Smith, and the funds were raised from investors. Correct?

A. Yes, and I believe that Mr. McGinn was also involved with the First Line.

Q. And the First Line Trust was -- there were concerns raised about First Line Trust, correct, about its ability to pay off its investors based on First Line's --

A. The First Line operating company's financial acumen.

Q. Based on that, does it make sense that it is absorbing FAIN's debt, absorbing the funds owed to FAIN by TDM Cable?

A. It doesn't make a lot of sense to me as to how that would -- how that would happen or why it would happen and the decision around that.

Q. Would it make sense to you if you were to find out that First Line Trust is in default today?

A. It wouldn't surprise me.

Q. If we put those pieces together, what happened in the big picture here?

A. It appears that business decisions that were made were not very prudent.

Q. Does it seem like decisions were made as far as which entities were to become in default and which entities were to remain in business?

A. I don't know if I can draw that conclusion.

Q. First Line absorbed the debt and is now out of business, whereas FAIN stayed out of default for a while and TDM Cable was essentially unaffected, but it loaned money, based on these proceeds to Smith, McGinn and Rogers.

Does it sound like Smith, McGinn and Rogers owe First Line some money, First Line's investors?

A. I'm sure they can shed more light on the matter beyond my cursory knowledge of this.

Q. But you should have more knowledge of the intricacies of these Quicken books and the flow of money than we. Are we wrong?

A. Your analysis seems to be correct, but making the assumption that someone was allowed to fail and somebody was kept whole is, I think, a judgment call. I'm not making that.

Q. Based on these, and I know you're not aware of whether or not First Line is in default, but we're saying if, indeed, it is today, can we draw the line to say First Line Fund, which is now in default's funds were paid to McGinn, Smith and Rogers, based on the flow of transactions we've seen?

A. You can draw that conclusion by looking at this, but I assume you'll have an opportunity to ask those questions to Mr. Smith and McGinn when --

Q. Again, I'm asking you, who's got an intricate knowledge of these books.

A. What are you asking me? Are you asking me to render an opinion that I'm not going to render?

MR. RATTINER: What was your viewpoint at the time?

You're the one in the Quicken books making these transactions occur, at the direction of perhaps someone else.

Again, we know that you allude to McGinn and Smith, and they'll be able to shed more light, and we believe that to be true, and we belive they'll be able to shed more light on the intricacies of how it works.

We don't believe that they'll be able to present more light on Quicken files, which is what we're presenting here today.

So we're looking for what you were thinking at the time, when these Quicken files were transacted.

Here we see that FAIN survives, First Line and First Trust don't. That may not have been obvious on 3/28/2007, but things started to turn for the worse at some point in 2007, early 2008.

So at the time, does it not pop into your mind that I'm helping FAIN and hurting somebody else?

What would be the rationale for doing this transaction this way?

THE WITNESS: That's a logical conclusion to draw.

MR. RATTINER: Did you draw it?

THE WITNESS: I never really sat back and looked at who are the winners and losers in this game, but if I was to look at this now, I would say, yeah, that is an accurate statement.

MR. RATTINER: Fair enough.

MR. ROWEN: Can I have this marked as Exhibit 10?

(Rees-10, Excel spreadsheet of MS Licensing's M & T checking account, is received and marked for identification.)

questions as the financial individual, saying, we have $75,000. You're actually having access to these ledgers, you're creating documents throughout time. There's no revenues?

THE WITNESS: Yeah, I could have mentioned that to him. I don't recall if his response was it's good, it's bad, or I'm working on.

I mean, within the four funds, there were a myriad of transactions that needed attention, so I can't recall specifically if this was good or bad.

Q. Who is RTC?

A. RTC -- I believe that was an old alarm trust that had been around for -- prior to my arrival at McGinn Smith in 2002.

Q. What was your involvement in RTC? Was it RTC Trust?

A. RTC Trust.

Q. What was your involvement?

A. I don't know if RTC Trust was paying off its investors. There was a structural deficit in the trust, and one of the funds was loaning -- had set up a letter of credit or a loan with RTC Trust, so when they were ultimately paid off, the residual income from the trust, since we would have no more investors, would come back to one of the funds that originally had set up the line of credit with hem.

Q. Does that flag something in your mind, that an entity was not able to pay off its investors, needed money from one of the four funds, how are the expectations that it would be able to pay the four funds, if it wasn't able to meet the initial projections to pay off its investors?

A. The initial RTC payments were principal and interest to the investors.

The goal was, and I thought there were some models that said if it ran its life with whatever attrition rate was used, that it would actually be able to pay back the loaned amounts that were put into it.

Q. Would you see those models?

A. I would have seen them.

Q. Who creates those models?

A. I may have created that one, or it could have been left over from my prior -- my predecessor.

MR. ROWEN: Can I have this marked as Exhibit 11?

(Rees-11, Document, Bates Nos. MGS 0020096 through 100, is received and marked for identification.)

Q. I'm handing you Exhibit 11 in this matter. Exhibit 11 is a total of five pages. These were provided to FINRA by McGinn Smith as documentation of FAIN's use of customer proceeds.

The first two pages, stamped MGS 0020096 and 97 are a copy of a registered report of transactions between FAIN and RTC.

The last three pages, stamped MGS 0020098 through MGS 0020100, are copies of a grid note between FAIN and RTC.

Take a moment to review that.

A. Okay. Okay.

Q. Based on the -- this document shows that the first loan was made from FAIN in 2006, from FAIN to RTC, so based on that, do you think it would have been your predecessor who put together the model?

A. No, I could have done that.

Q. Based on a model -- would you have put a model together that involved FAIN loaning RTC money over a period of 18 months, which is the period we have in here?

A. I believe I had a spreadsheet that tracked these advances under this note.

Q. That would have been part of your analysis of when they would pay off?

A. When it would have been paid off, the existing cash flow remaining on the alarm trust and what then would be paid back to FAIN.

Q. So in total, RTC needed to borrow from FAIN over $459,000 in order to pay off principal and interest to its customers?

A. Correct.

Q. Sorry. To its investors. Excuse me.

How far out would the model have had to project for $459,000 to be paid back in principal?

A. Well, at this point, given that it is a pool of alarm contracts, there is a -- that pool generates a monthly income stream that could be sold and would have been -- FAIN would have owned it.

So to answer your question, I don't know how long the model would have gone out. I don't recall the ultimate answer, but there's also value in that income stream, and it could have been sold to pay down this loan also.

Q. The $459,000 worth of value that was, at some point, projected to pay off RTC's investors by.

I'm trying to figure out here, at some point, RTC miscalculated its revenues and expenses to the point of being $459,000 short to its investors.

There was really an expectation that all of that could be made up in time to pay off FAIN's investors?

A. I don't know how many remaining contracts were left in the RTC Trust.

It's a pool of home alarms, so, certainly, they generate monthly recurring revenue that, depending on the amount of contracts that are left in that pool, it would have a certain value.

I don't know what the going rate, as far as a multiple of monthly cash flow is, to say that that will cover that.

If I did an analysis, I don't know what figures I would have used, but it's not unheard of for these things to sell at 30 times the monthly cash flow.

Q. Can you take a look at the third page of the exhibit, the paragraph entitled "Interest"?

What does the interest rate show for this loan, this grid note?

A. 12 percent.

Q. So by 10/1 of 2007, there was a 12 percent a year interest payable on $459,000, plus the principal is to paid back at some point because FAIN is going to have to pay its investors off at some point?

A. Correct.

Q. Based on the results, based on the total payback of this loan represented on page 2, I guess, what went wrong?

What goes wrong? We don't know the alarm contracts as well. What goes wrong?

A. I'm not an expert in the alarm business, and I don't know what that portfolio looks like at this point.

Q. But you said you put together the models.

A. And it's -- right, based on a certain number of expectation of how many contracts you're going to have, how many you're going to lose.

You know, in the last year and a half, we went through an incredible crash where people may decide that , you know what? I don't want to pay my $30 a month alarm bill, and at that point, they may stop paying it.

You know, we anticipate them paying that, but there are factors certainly beyond the control of the alarm holder.

Q. By October 1 of 2007 though, there were already such deficiencies in totaling over $459,000. So the expectation was that it would get better than it was in '06/'07?

A. I don't -- I can't speak to RTC's performance and what caused it to run into a situation like this.

Q. I apologize if it's already been answered, but what would cause RTC to not be able to pay off its principal and interest?

A. Without seeing RTC's financial records and how the deal was originally structured, I couldn't tell you that.

Q. Would you update the projections, the analysis that you would have done to project when the RMR would -- the RMR per month, would you adjust that based on contracts not being reviewed or going into default over time?

A. We would occasionally get reports concerning the performing contracts and update that as necessary.

MR. RATTINER: How would you get that? I mean, a contract would be a hundred houses, three-year period, $30 a month?

THE WITNESS: Three to five years.

MR. RATTINER: And as one person drops off, now you have 99 contracts, three-year periods, five-year periods, $30 a month, you would then revalue your model? To say -- hopefully we're still positive. At that point, you only lost one, but at some point, you lose 15, 20, 30, that's when you hit your deficit?

THE WITNESS: That's the alarm business, managing that attrition.

Q. How would you document the attrition, would you amortize the contracts in thee Quicken books?

A. We would receive reports and look at the RMR, and see what was deposited into the RTC account on a monthly basis.

Q. Would you subsequently amortize the alarm contract value in Quicken?

A. We -- I don't recall making any adjustments to the alarm contract value.

Q. Would you document the adjustments somewhere else?

A. The alarm contracts were not on First Advisory's books. They were on RTC's books. So they were amortized.

Q. So they would be amortized in RTC's books?

A. Correct.

Q. Possibly in Quicken, possibly not?

A. Possibly, correct.

Q. Let me ask you, in 2006 to 2007, is that analysis and that documentation going to reflect that $459,000 could be loaned from FAIN to RTC and reasonably be paid back by the time FAIN needed to pay back its customers?

THE WITNESS: There was that expectation that this loan would be paid down to a manageable level and, if necessary, the contract portfolio could be sold to somebody in the alarm industry, and then those proceeds would be available to pay back the investors.

Q. All right. So we've seen RTC. We've seen SAI Trust. We've seen First Line not be able to pay off their investors, and their funds were tied to the alarm business, whether it be in loans or in actual contract holding.

What went wrong here, and why is it the four funds seem to have been hurt by the process?

A. Well, as I said, the economy certainly tanked out last year, causing a decrease in RMR.

Q. Why did the four funds get involved?

Why would the four funds be loaning RTC money, loaning SAI money, loaning -- they didn't directly loan First Line money, but loaning RTC and

SAI money to keep alarm trusts afloat, when RMR returns were down?

A. I put together the analysis. I provided it to Mr. Smith and Mr. McGinn, and, you know, they make those decisions to do that.

MR. NEWMAN: You didn't see any problem with this practice?

THE WITNESS: At the time, the spreadsheet, I thought, would support the payback. Now, subsequent -- I don't know when this analysis was updated subsequently to reflect any change in the RMR we were receiving that would cause me to revisit that, but I didn't have one at that time.

MR. ROWEN: Let's take a five-minute break. We'll go off the record.

(A brief recess is taken at 4:54 p.m.)

MR. ROWEN: We're back on the record at approximately 5:10.

Q. We spoke about fees paid by the four notes earlier, and I know we spoke about different types of fees.

There was underwriting. There was management. There was administrative.

A. I thought there were three components, underwriting, management and administrative.

you had mentioned that your understanding of the responsibility as a Series 27 included managing the books under GAAP, which is Generally Accepted Accounting Principles.

THE WITNESS: Yes.

MS. SMITH: When we were discussing RTC, when we were talking about modeling and the fact that the contracts may have decreased in value, would it be necessary for you to adjust the books and records or make an adjustment on the Quicken records in order to reflect that?

THE WITNESS: That's probably something that should have been done, but was an oversight, given the myriad of responsibilities that I had.

MS. SMITH: Were there ever times with the other entities, where accruals or any other types of GAAP type of entries should have been made that were overlooked?

THE WITNESS: We accrued the interest receivable and the interest payable. You know, Dave really handled the valuation of the actual assets.

We accrued management fees payable. Those were typically the issues surrounding the funds, as far as what we had to do for our auditors.

MS. SMITH: And what involvement did you