

AUDIO TRANSCRIPTION OF § 341 CREDITORS' MEETING

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1 DEC, DschDelay, ASSET

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3 UNITED STATES BANKRUPTCY COURT

4 WESTERN DISTRICT OF MISSOURI

5 (KANSAS CITY DIVISION)

6 BANKRUPTCY PETITION #: 15-42262-can7

7

8 Date filed: 08/05/2015

9 Assigned to: Cynthia A. Norton 341 meeting: 03/31/2016

10 Chapter 7 Deadline for filing claims: 06/08/2016

11 Involuntary

12 Asset

13

14 Due to the quality of the recorded media,
15 portions were unable to be transcribed. The transcript
16 may also include misinterpreted words. The transcriber
17 was not present at the time of the recording; therefore,
18 this transcript should not be considered verbatim.

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21 Reported by: Kathleen A. Yager

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AUDIO TRANSCRIPTION OF § 341 CREDITORS' MEETING

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1 Debtor 1:
LTS Management Services, LLC
2 110 West 9th Street, Suite 100
Kansas City, MO 64105
3 JACKSON-MO
Tax ID/EIN: 43-1856233
4 aka LTS Management, LLC
aka LTS Marketing, LLC
5
6 Represented LTS Management Services, LLC
by PRO SE

7 Trustee
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Email: Janice.stanton@sbcglobal.net
10 TERMINATED: 1/12/2016

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10 Terminated: 02/16/2016

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Terminated: 10/05/2015
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24
25

1 P-R-O-C-E-E-D-I-N-G-S

2

3 EDWARD NAZAAR: Sir, would you raise
4 your right hand please. Do you solemnly swear that
5 the testimony you are about to give in the cause will
6 be the truth, the whole truth and nothing but the
7 truth so help you God?

8 MR. KIMBALL: Yes.

9 EDWARD NAZAAR: Thank you sir. Mr.
10 Kimball, first of all thank you for being here. Mr.
11 Pelofsky, thank you for being here. As both of you
12 know, I have been appointed to the successor trustee.
13 I'm Edward Nazaar for the record. Mr. Kimball, I was
14 here for a significant portion of your testimony
15 yesterday at your personal meeting of creditors and
16 so I have that, some information. I have -- in order
17 to try to expedite the process, I have asked
18 colleagues to sit here really to speed this process
19 up, to try to make it as straight forward. We are
20 not going to try to talk over one another, but we
21 will try to get that information out just as quickly
22 as we can. Can you tell me how you got into this
23 business?

24 MR. KIMBALL: Into --

25 EDWARD NAZAAR: The --

1 MR. KIMBALL: Microfinance Petty

2 Lumbus (ph) --

3 EDWARD NAZAAR: Yes.

4 MR. KIMBALL: To be brief, in 1999
5 Sam Furseth, Mark Curry and I created the company
6 called the Laptop Shop.

7 EDWARD NAZAAR: Which is LTS.

8 MR. KIMBALL: LTS, and we sold
9 computers from large corporations when they would
10 upgrade their platform. To give you a small example,
11 Bank Midwest down the street here, when they had a
12 changeover of their routers, we would call somebody
13 like them and they would sell us their routers and we
14 would resell them to a wholesaler or an enduser.
15 That was 1999.

16 EDWARD NAZAAR: And were you an IT
17 person?

18 MR. KIMBALL: No.

19 EDWARD NAZAAR: Okay.

20 MR. KIMBALL: I was a sales person.

21 EDWARD NAZAAR: Okay.

22 MR. KIMBALL: As we may have
23 remembered, the year 2000 was crazed, that they
24 thought all their computers were going to crash. So
25 when they didn't, every single company in the world

1 had bought redundancy of every single piece of
2 hardware they had, so this wholesale computer market
3 when from down the toilet because there was a
4 flooding of brand new computer equipment being sold
5 on E-Bay and all these other different auction sites
6 at the time. A friend of mine, name Joel Tucker
7 (ph), he and his brother had a car dealership,
8 (clearing throat) excuse me, and they started lending
9 money against the cars, against their paychecks, that
10 they put an as directed out in the USA Today saying
11 it would be two hundred dollars call an 800 number,
12 an 800 number. They literally couldn't pick up the
13 phone fast enough. He and I were friends from the
14 University of Kansas, and he said why don't we put
15 some of your computers in my car dealership. And we
16 did the run rate and at twenty-five dollars a week,
17 it would take forever to pay for these computers, so
18 I said why don't we just do your overflow. And so he
19 would give us --

20 EDWARD NAZAAR: When you say -- can I
21 interrupt you, when you said, put your computers in
22 there, you were doing the accounting work on his --

23 MR. KIMBALL: No.

24 EDWARD NAZAAR: Buyer bigger (ph).

25 MR. KIMBALL: No, just sell computers

1 out of his car dealership.

2 EDWARD NAZAAR: Okay.

3 MR. KIMBALL: Make sense?

4 EDWARD NAZAAR: Yeah.

5 MR. KIMBALL: Because he figured if
6 they wanted to buy one of his cars for two thousand
7 dollars, why not buy a computer for two hundred
8 dollars.

9 UNIDENTIFIED FEMALE: Sorry.

10 EDWARD NAZAAR: Thank you.

11 MR. KIMBALL: We decided as an
12 alternative to doing that, was just to take the
13 overflow because they could not handle the volume
14 from this classified as directed, so basically every
15 week he would give me a list of five thousand
16 (inaudible).

17 EDWARD NAZAAR: So this was kind of a
18 buy here, pay -- this is a prototype of a buy here,
19 pay here sort of deal?

20 MR. KIMBALL: I had nothing to do
21 with the car dealership. That's how he got into the
22 lending business because he would lend those
23 customers money. If they made their car payment, he
24 would lend them two hundred bucks. So basically I
25 would get a list of names and we created a credit

1 application from my father who is a banking attorney
2 and would mail this list, this application, and
3 within a week, for example, we'd mail ten thousand
4 names a week. We would probably get three or four
5 thousand applications off that mailing list. We
6 broke all the direct mailing records that you can
7 possibly imagine. They would fax us a copy of the
8 credit application, their bank statement, a copy of
9 their government ID and a voided check. Based upon
10 that information, we decided whether we would lend
11 them two hundred dollars. We only had product, two
12 hundred dollars for, I'd say five years. So that's
13 how I got into the business.

14 EDWARD NAZAAR: I'm not familiar with
15 your - your father practices where?

16 MR. KIMBALL: In Oklahoma City.

17 EDWARD NAZAAR: And you're not -- his
18 name, I'm sorry.

19 MR. KIMBALL: Paul Kimball.

20 EDWARD NAZAAR: Okay. What firm
21 would he be with?

22 MR. KIMBALL: He used to be with
23 Kimball, Wilson, and Walker and then subsequent he's
24 retired. He's about, I think he is 77 years old.

25 EDWARD NAZAAR: Okay. And being from

1 Wichita, Oklahoma City.

2 MR. KIMBALL: Well, just to give you
3 a reference, he was the lead council for the FSLIC in
4 the 80s in the state of Oklahoma which obviously was
5 the epicenter of that --

6 EDWARD NAZAAR: Yeah.

7 MR. KIMBALL: Deboggle (ph).

8 EDWARD NAZAAR: Yeah. So that got
9 you into the Microloan business?

10 MR. KIMBALL: eventually it migrated
11 from this direct mailing list to, we built websites,
12 and then we, Mr. Tucker got out of the lending side
13 and went into the marketing side which is the lead
14 side as the person who used to deal with Google, and
15 Google had like fifty employees. I didn't like that
16 part of the business. I liked the lending and the
17 underwriting side. And so we basically paid Mr.
18 Tucker to bring us applications and we would yes or
19 no them, and eventually it became an electronic
20 system where we devised our software. I think you
21 heard part of that story yesterday. And his software
22 and our software just basically talked twenty-four
23 hours a day, seven days a week.

24 EDWARD NAZAAR: His software being
25 Tuckers?

1 MR. KIMBALL: I don't - I don't know
2 what the name of the software was, but it would be
3 Edata Solutions Software.

4 EDWARD NAZAAR: But I mean, when you
5 say, he, who do you mean?

6 MR. KIMBALL: Mr. Tucker.

7 EDWARD NAZAAR: Mr. Tucker, okay.

8 MR. KIMBALL: So basically the reason
9 that the online business is very unique versus the
10 shops that you may see, I don't know about Wichita
11 but they were all over Kansas City, is that the
12 demographic is completely different. It's a much
13 higher income level because they don't necessarily
14 want to walk into a store and bring a whole bunch of
15 paperwork and possibly have their friends see them or
16 whatever, so you can apply at two in the morning and
17 then at seven a.m. you get a call from us.

18 EDWARD NAZAAR: Um-hum.

19 MR. KIMBALL: If you apply at 7:05,
20 you get a call at 7:06. We would try to make a call
21 reaction time was within one minute because of the
22 end when we were fully integrate before government,
23 knock the banks out of business.

24 BRENDON MCPHERSON: Mr. Kimball, this
25 is Brendon McPherson for the record. Can you talk a

1 little bit about how you data the marketing side that
2 would generate the leads. I assume this was
3 websites, and how did it work in terms of who did
4 they send leads to? Was it just you? Was there
5 competition?

6 BRENDON MCPHERSON: Sure.

7 MR. KIMBALL: I can only speak for
8 what I know about my relationship. At the end Edata
9 was not owned by Mr. Tucker, it was owned by the
10 Wyandotte Tribe of Oklahoma and I think in
11 (inaudible) business systems, but at the beginning it
12 was just owned by Mr. Tucker. But it kind of - I
13 think what you're trying to understand, the way I
14 understood it, when I had, for example, twenty
15 websites, I would pay Google for what they call per
16 click and clicks can be click to the first page,
17 second page, application, and there is a different
18 price for each one of those things. And it's
19 incredibly complicated and incredibly boring. So my
20 understanding was that he had relationships with
21 thousands of people who had websites. Those people
22 are called lead aggregators. Same thing, if you're
23 looking for a car or a, you know purse, shoes or
24 something, you type in whatever you want in Google or
25 Yahoo or whatever will give you a list. You can pay

1 to be on that first page or you can pay to be on the
2 sixtieth page. We didn't want to be on the sixtieth
3 page. So I assume that Mr. Tucker paid these people
4 to be on the first page.

5 The way our system work because we had our
6 own propriety software, the DMS software that I told
7 you about yesterday, is that we just wanted to look
8 at raw data. We didn't want to look at what they
9 called underwritten data and what I mean by
10 underwritten, he created a franchise model. So let's
11 say, because I've known you for a couple years now,
12 Brendon McPherson had a loan portfolio with Edata.
13 They would use Edata software and he would send you a
14 list of preapproved applicants. We were on a system
15 where we looked at all the data and picked the data
16 that we wanted to buy on any given day, let's just
17 say in 2012, a very big year of ours, we'd look at
18 thirty to fifty thousand applications a day and buy
19 four thousand of those. Of those four thousand, we
20 might make a thousand loans if that makes sense. And
21 that was based upon a number of combinations, mostly
22 that despite the fact that it's called a Payday Loan,
23 you'd be surprised how many people who didn't have a
24 Payday would apply for a Payday loan. So there was a
25 number of knockout criteria's. And then we would, if

1 we bought the application, then we would send it to,
2 based on the Patriot Act to a company called Accurint
3 that would verify the Social Security number versus a
4 either a utility bill or a mortgage or something and
5 then it would also go against the OFAC. You know
6 what the OFAC is?

7 EDWARD NAZAAR: No.

8 MR. KIMBALL: That's the terrorist
9 watch list. So if it passed that criteria, it went
10 to an underwriting company that was kind of like an
11 Experian for the industry. There's a lot of them
12 now.

13 EDWARD NAZAAR: Um-hum.

14 MR. KIMBALL: So they would have a
15 database on, let's just use you for an example, on
16 your credit history with Online Lending and retail
17 lending, and so if you had not taken more than three
18 loans in the last year, not defaulted on a loan in
19 the last year, and not applied more than let's say
20 nine times in the last ten days, then you would go to
21 the next step and that would be in the banking
22 system. If I'm talking, telling too much, just tell
23 me. There's a, when you use your ATM, you're
24 actually making a credit transaction. The ATM is
25 lending you money for let's say five minutes. So we

1 use a system that's like the ATM system. We ping
2 your bank account to see if that bank account was
3 actually active. If it was active, there is like
4 fifteen different response codes, active with money,
5 active with no money, fraudulent transactions, all
6 kinds of things. Based upon those three criteria, we
7 would make a decision whether we would lend you
8 money. So out of those four thousand applications
9 that we bought off the raw data, half of them would
10 get kicked out. That costs about a dollar to do
11 those three transactions. So it could be quite
12 expensive when you're talking about mass volume. And
13 then we would maybe convert fifty percent of the
14 (inaudible) from the (inaudible) from the four
15 thousand to the two thousand, that we would maybe
16 make --

17 EDWARD NAZAAR: Who developed this
18 for you? I mean this is a really complex system.

19 MR. KIMBALL: I didn't develop it, I
20 just --

21 EDWARD NAZAAR: They just evolved.

22 MR. KIMBALL: For the first two
23 years, we didn't have any employees so I made all the
24 loans myself and Sam, so when you talk to these
25 people you understand what their problems are and so

1 you can determine when someone, I guess for a lack of
2 a better term, lying to you. They are all basically
3 lying to you about something. You'd be surprised if
4 you look at somebody's bank statement and you see an
5 ATM withdrawal at Harrah's Casino at 2:30 in the
6 morning and tell you their kid is sick, what they
7 were really borrowing the money for, so.

8 BRENDON MCPHERSON: And you were only
9 paying then for, I think you said applications. And
10 I think you used a hypothetical of like twenty
11 thousand potential leads and you weren't paying for
12 the leads, you were only paying for the --

13 MR. KIMBALL: We had a volume deal
14 where we looked at his data for a set price.

15 BRENDON MCPHERSON: And was that data
16 exclusive to you or would Edata --

17 MR. KIMBALL: I don't know. I don't
18 know.

19 EDWARD NAZAAR: When did --

20 MR. KIMBALL: We were his biggest
21 customer.

22 EDWARD NAZAAR: When did Edata, when
23 was it developed?

24 MR. KIMBALL: I don't know. It was
25 Bahamas marketing group and at some point, I'm

1 guessing, 2005 or 2006 they switched to Edata. I
2 could be off by a year or two, I don't know, but it
3 was the same principal.

4 EDWARD NAZAAR: But you personally or
5 Mr. Furseth weren't involved with Edata. Edata was a
6 vendor to you, is that what, or to LTS?

7 MR. KIMBALL: Yes, we never had any
8 ownership or --

9 EDWARD NAZAAR: And when you describe
10 your relationship or business relationship with Mr.
11 Tucker, was that LTS at that point?

12 MR. KIMBALL: At that point, I don't
13 know if LTS was, I think it was probably DMS
14 Marketing at the beginning and eventually when we
15 brought on investors beyond my dad and Sam's dad and
16 their cousins and friends and cousins, like this
17 gentleman represents, we created a facilities
18 management company called LTS Management. In the
19 perfect world, LTS Management would have just been a
20 pure call center operation but unfortunately, as I
21 explained yesterday, with smaller investors we let,
22 out of probably just being lazy, LTS borrowed the
23 money from them, but LTS truly was, all the employees
24 that's where they got their paycheck from, that's
25 where their 401K was from, and that's where there,

1 but that's where they felt like they worked, but they
2 actually lent out money for a multitude of individual
3 LLCs.

4 EDWARD NAZAAR: So DMS was a Missouri
5 Corporation, a Delaware Corporation?

6 MR. KIMBALL: I don't remember.

7 EDWARD NAZAAR: Who formed it for
8 you?

9 MR. KIMBALL: I don't remember.

10 EDWARD NAZAAR: So its, it was the
11 initial microlender?

12 MR. KIMBALL: I believe so. This is
13 in 2000 --

14 EDWARD NAZAAR: I understand. I'm
15 just trying to get a sense of how this thing works.

16 MR. KIMBALL: DMS stood for Del Mark
17 Sam.

18 EDWARD NAZAAR: Okay.

19 MR. KIMBALL: Mark Curry, we bought
20 out in November of 2005.

21 EDWARD NAZAAR: And is that when LTS
22 was formed?

23 MR. KIMBALL: No, LTS was already
24 formed before then. LTS was the original laptop
25 shop. It was formed in September of 1999.

1 EDWARD NAZAAR: Okay.

2 BRENDON MCPHERSON: What were you
3 doing before LTS?

4 MR. KIMBALL: I worked at Minolta
5 Business Systems in Chicago, Illinois.

6 UNIDENTIFIED MALE: Can I ask a
7 question?

8 EDWARD NAZAAR: Yeah, go ahead.

9 UNIDENTIFIED MALE: I have another
10 for the US Trustee, would you classify LTS Management
11 as a servicer? Did it actually service the loans?

12 MR. KIMBALL: Service, I mean, it
13 just basically, it was the backroom operations to
14 make sure the payments were made.

15 BRENDON MCPHERSON: So who collected
16 the payments? If a borrower made a payment, who
17 actually was involved in collecting the money from
18 the borrowers?

19 MR. KIMBALL: The bank collected the
20 payments?

21 EDWARD NAZAAR: For whose benefit?
22 That's the question.

23 MR. KIMBALL: For the benefit of the
24 LLC that made the loan.

25 EDWARD NAZAAR: whose bank account

1 was it?

2 MR. KIMBALL: Each one of these LLCs
3 other owned bank accounts.

4 BRENDON MCPHERSON: Well, when you
5 say the bank collected the loans, you gave the bank -
6 -

7 MR. KIMBALL: Automatic clearing
8 houses and process.

9 BRENDON MCPHERSON: Right, right.
10 But you would give them, somebody would give the bank
11 an instruction to collect that, is that correct?

12 MR. KIMBALL: LTS Management would
13 give a file every day to the bank after we divided
14 out all the loans to the LLCs, instructing which is
15 called, somebody on the list, I don't --

16 EDWARD NAZAAR: Yeah we do. Its --

17 MR. KIMBALL: Let's just say Camden
18 Marketing, give ten loans to Camden Marketing and
19 then give names, the Social Security numbers and the
20 routing number and instructed to send out let's say
21 three thousand that day and then the same day would
22 say Camden Marketing would be owed let's say two
23 thousand dollars, it was called an ACH file and it
24 would have credits meaning money going back to us in
25 debits money going out.

1 BRENDON MCPHERSON: Okay, so when the
2 bank collected that money and would deposit into an
3 account belonging to LTS?

4 MR. KIMBALL: No, to Camden.

5 BRENDON MCPHERSON: Okay. So there
6 were individual --

7 MR. KIMBALL: We just processed it
8 for them.

9 BRENDON MCPHERSON: So there were
10 individual accounts for each of the individual --

11 MR. KIMBALL: Yes.

12 BRENDON MCPHERSON: Operations.

13 MR. KIMBALL: Yes.

14 UNIDENTIFIED MALE: So as Camden an
15 example, there could be hundreds of transactions in a
16 month if that was a high volume --

17 MR. KIMBALL: If it was a big fund,
18 there could be thousands.

19 BRENDON MCPHERSON: Was there a
20 written agreement between Camden and LTS?

21 MR. KIMBALL: yes.

22 BRENDON MCPHERSON: What was that
23 agreement called?

24 MR. KIMBALL: Service agreement.

25 BRENDON MCPHERSON: So LTS was a

1 servicer in the sense that it was responsible for
2 ultimately collecting the payments from the borrower.

3 MR. KIMBALL: It provided the day to
4 day operations. So let's just take Brendon for
5 example, Brendon is an attorney, I'm picking on you -
6 -

7 BRENDON MCPHERSON: No, its fine.
8 It's fine.

9 MR. KIMBALL: He invested money, he
10 doesn't want to come down there and make the loans
11 himself, right, so he is paying LTS to do the daily
12 functions of the loan business for his LLC or if he
13 just lent the money to the LLC, that LLC was owned by
14 Sam and I and with that LLC made the debt payments to
15 Brendon's either his LLC or (inaudible), but the
16 functions of making the money were provided by LTS,
17 deciding who to lend to and then following up on the
18 payments and then making sure they got all the proper
19 documents sent to them, et cetera.

20 UNIDENTIFIED MALE: Did LTS get a
21 percentage cut of what was received or how was that?
22 How was LTS compensation?

23 MR. KIMBALL: LTS got compensated by
24 twenty percent of the money of the outstanding loans
25 on the street. So we were incentivized to make

1 loans. So if we made a bunch of bad loans, let's say
2 you gave a hundred thousand dollars and all hundred
3 thousand dollars went into bad debt, we would not be
4 able to charge you any money, but if all hundred
5 thousand dollars were good loans, we would charge you
6 twenty percent per month of the outstanding loan
7 balance.

8 EDWARD NAZAAR: As collected.

9 MR. KIMBALL: No.

10 EDWARD NAZAAR: Okay.

11 MR. KIMBALL: The loan balance.

12 UNIDENTIFIED MALE: But if it were
13 written off then it wouldn't be on the street, is
14 your point.

15 MR. KIMBALL: Right, but the goal was
16 if we lost a loan for you that day, we would try to
17 replace it within a day or two.

18 EDWARD NAZAAR: But if you were
19 receiving a payment and --

20 MR. KIMBALL: It doesn't do with
21 payments, it had to do with loan portfolio, the
22 principal amount of money on the street.

23 EDWARD NAZAAR: Only paid when the
24 principal got repaid?

25 MR. KIMBALL: No.

1 EDWARD NAZAAR: No, advanced.

2 MR. KIMBALL: If Brendon gives a
3 hundred thousand dollars and all hundred thousand
4 dollars was lent out and maintained continuously, he
5 would pay twenty thousand dollars a month for us to
6 maintain that hundred thousand dollars.

7 EDWARD NAZAAR: Twenty a month?

8 MR. KIMBALL: A month.

9 EDWARD NAZAAR: Is that an
10 unsustainable business model?

11 MR. KIMBALL: No.

12 EDWARD NAZAAR: Tell me, why not? I
13 mean I can't --

14 MR. KIMBALL: Because that hundred
15 thousand dollars generates a few thousand dollars a
16 month in revenue.

17 UNIDENTIFIED MALE: How much?

18 MR. KIMBALL: Sixty thousand dollars
19 a month in revenue.

20 UNIDENTIFIED MALE: From the interest
21 payments?

22 MR. KIMBALL: No, fee payments.

23 UNIDENTIFIED MALE: Maybe I can
24 clarify this, because I think I speak your language
25 to some degree. So because these are very short-term

1 loans, right?

2 MR. KIMBALL: The loans were designed
3 to be paid back within two weeks.

4 UNIDENTIFIED MALE: Okay. So that
5 hundred thousand dollars should turn over in your
6 example, 2.2 times per month, if all the loans were
7 repaid timely.

8 MR. KIMBALL: Not 2.2 times, but the
9 first month one time and after that, two times every
10 month.

11 UNIDENTIFIED MALE: And --

12 MR. KIMBALL: Because nobody gets
13 paid more than two times a month.

14 UNIDENTIFIED MALE: And I think you
15 said yesterday during your testimony that there was a
16 short criteria for write off, so if they didn't repay
17 within a --

18 MR. KIMBALL: We went down within
19 twenty-one to thirty days if they would not pay not
20 us at all.

21 UNIDENTIFIED MALE: So that money
22 would be on the street if it were bad for no more
23 than twenty-one to thirty days.

24 MR. KIMBALL: The grace period, the
25 grace period for example, if you borrowed money,

1 today is a Friday, ninety-eight percent of the world
2 gets paid on Friday in the United States, so if you
3 got paid today, your first payment with us would be
4 two weeks from now. If you got paid next Friday, we
5 would make your first payment twenty-one days from
6 now, so we would know within twenty-one days or if
7 you were a govern employee, you got paid on the
8 third, we would know by then whether or not you were
9 going to pay us. Because if you typically missed
10 your first payment, there was, it was almost like
11 ninety-eight percent chance you weren't going to pay
12 us anything.

13 UNIDENTIFIED MALE: How quickly would
14 you write it off, if the (inaudible) payment was not
15 made?

16 MR. KIMBALL: The typical borrower
17 would close their bank account between the time they
18 got the loan and the first payment. It's just --

19 UNIDENTIFIED MALE: Let me put it
20 this way. So your payment is due on X date, would
21 you know when they closed the bank account?

22 MR. KIMBALL: No, you only find out
23 when you attempt to debt that account.

24 UNIDENTIFIED MALE: So when you
25 attempt to debit that account and say that account

1 can't be debited, how quickly would you withdraw that
2 loan from the portfolio?

3 MR. KIMBALL: The same day.

4 UNIDENTIFIED MALE: Okay, so your
5 write off would occur the same day that the borrower
6 missed --

7 MR. KIMBALL: Yes.

8 EDWARD NAZAAR: Let me put in --

9 MR. KIMBALL: Column, thing would
10 happen.

11 EDWARD NAZAAR: This is a document
12 that was filed in your personal bankruptcy and it
13 lists various entities.

14 MR. KIMBALL: Yes.

15 EDWARD NAZAAR: And this is at
16 Dockett 82-1 of the Del Kimball bankruptcy schedules,
17 case number 15-42262 and it's entitled an addendum to
18 Schedule B19 and statement of affairs number 27. And
19 there are various entities that are shown there.

20 MR. KIMBALL: Yes.

21 EDWARD NAZAAR: Are these the
22 entities that LTS serviced as part of this loan?

23 MR. KIMBALL: Some of these are not
24 lending entities but the majority of them are, so the
25 answer to your question is, in 2011, yes. After

1 2012, it was Glacier Management.

2 EDWARD NAZAAR: And so LTS was -- did
3 LTS then go out and solicit money from third party
4 persons that are the creditors in this case for --

5 MR. KIMBALL: No.

6 EDWARD NAZAAR: How did your
7 investors or you -- when I say your, I mean LTS of
8 course. How did LTS obtain either investment dollars
9 or loan dollars to fund its operation?

10 MR. KIMBALL: Ninety percent of the
11 time people called me.

12 EDWARD NAZAAR: And what
13 documentation was utilized for that relationship?

14 MR. KIMBALL: Case by case scenario.

15 EDWARD NAZAAR: Were there form
16 documents that were utilized?

17 MR. KIMBALL: We had a presentation
18 that was a standard information about the industry
19 and depending on the level of the investor, we may
20 have done a ProForma, but ninety percent of the time
21 someone called me and said, I hear you're making my
22 friend a bunch of money, I've got some money, can I
23 give it to?

24 EDWARD NAZAAR: How was that
25 documented?

1 MR. KIMBALL: We created a -- most of
2 the relationships were in the form of debt so we
3 would have a promissory note between the entity,
4 Richmond, and the - I'm sorry Brendon with Lynn
5 Richmond.

6 EDWARD NAZAAR: We'll use Brendon, so
7 Brendon puts a hundred thousand dollars, he takes his
8 posse nelly buck bonus with that --

9 MR. KIMBALL: And it would Richmond
10 Ventures, LLC a hundred thousand dollars would be a
11 promissory note and amortization schedule typically
12 three years and with a lag of typically 90 to 120
13 days to give us time to lend the money out and then
14 the payments would start.

15 EDWARD NAZAAR: And utilizing again,
16 I think you said Richmond?

17 MR. KIMBALL: I'm just using Richmond
18 because I knew that was a lender.

19 EDWARD NAZAAR: Is Richmond a limited
20 liability company? What is Richmond?

21 MR. KIMBALL: It is an LLC out of
22 Delaware.

23 EDWARD NAZAAR: Okay, and who is
24 forming those entities?

25 MR. KIMBALL: We formed them

1 ourselves.

2 EDWARD NAZAAR: I mean, just
3 internally?

4 MR. KIMBALL: Internally, its easy.

5 EDWARD NAZAAR: Yeah.

6 UNIDENTIFIED MALE: Would these be
7 classified as special purpose vehicles?

8 MR. KIMBALL: No, they are just LLCs.

9 EDWARD NAZAAR: Always Delaware?

10 MR. KIMBALL: Not always. At the
11 beginning we might have had some Missouri ones but
12 pretty much after a certain point they were all
13 Delaware as far as the lending entities and
14 eventually there was, as you can see, there was some
15 Isle of Man corporations but that is a whole
16 different ball of wax.

17 UNIDENTIFIED MALE: When you were
18 talking about the twenty percent, basically service
19 fee, your management fee. I would believe that would
20 be in the context of people who invested more equity
21 on the debt side, still on the debt side it would be
22 twenty percent?

23 MR. KIMBALL: Yes.

24 UNIDENTIFIED MALE: If there was
25 excess in that portfolio to pay both the twenty

1 percent and the principal and interest payment, what
2 happened to that money?

3 MR. KIMBALL: That was Sam and I
4 money.

5 UNIDENTIFIED MALE: Okay.

6 MR. KIMBALL: The debt instrument is
7 that you got your payment, let's just say your
8 payment was five thousand dollars a month, that's all
9 you got.

10 UNIDENTIFIED MALE: So you were
11 guaranteeing a fixed rate of return to the investor?

12 MR. KIMBALL: We weren't guaranteeing
13 it but in a promissory note.

14 UNIDENTIFIED MALE: Then the note
15 would be for a fixed rate of return, it wouldn't be
16 dependent on the performance of the vehicle unless
17 the vehicle failed in which case the investor would
18 just be (inaudible).

19 MR. KIMBALL: Exactly.

20 UNIDENTIFIED MALE: And that's where
21 I just the twenty percent thing doesn't make sense to
22 me and portfolio's where there was a debt investment.

23 MR. KIMBALL: The investor, yourself,
24 didn't care as long as you got your check for five
25 thousand dollars.

1 UNIDENTIFIED MALE: Right.

2 MR. KIMBALL: But that's how we
3 allocated the expenses to make sure that everybody
4 was paying consistently the same.

5 UNIDENTIFIED MALE: So if Richmond,
6 if you're the fifty percent member and Sam Furseth is
7 the fifty percent member and it had a total of thirty
8 percent return, twenty percent of that was going, my
9 math isn't right, but twenty percent was going to LTS
10 and the other ten percent was going to Sam and Del as
11 the owners of --

12 MR. KIMBALL: Theoretically.

13 UNIDENTIFIED MALE: Okay.

14 MR. KIMBALL: But we also, you know
15 we would continuously building and developing so
16 really we made money that way. LTS was a breakeven,
17 was supposed to be a breakeven corporation or LLC,
18 I'm sorry, or maybe a sub-asset, I can't remember. It
19 wasn't a profit center. One of the biggest concerns
20 of an investor, like yourself, was there was some
21 kind of priority status given to like my brother,
22 like he got the best loans versus you I just met, you
23 know on the golf course. So we made sure that
24 everybody had the same kind of deal if that makes
25 sense.

1 UNIDENTIFIED MALE: On the list that
2 you have in front of you, would it be correct if,
3 that on the majority of entries are what you of as
4 (inaudible) companies, the majority of those, I'm
5 sorry all of those are LLCs and a majority of those
6 are Delaware LLCs.

7 MR. KIMBALL: Yes.

8 UNIDENTIFIED MALE: And is it true,
9 all of their members are in each instance, you and
10 Sam?

11 MR. KIMBALL: No.

12 UNIDENTIFIED MALE: Okay, so
13 sometimes there are other equity members in the
14 lending companies.

15 MR. KIMBALL: The members were never
16 Sam and I ever.

17 UNIDENTIFIED MALE: Okay. Is there a
18 general format to who were the members of all these
19 lending company LLCs?

20 MR. KIMBALL: Yeah, everybody in
21 capital partners.

22 UNIDENTIFIED MALE: Okay. Was the
23 single member?

24 MR. KIMBALL: Each one, the majority
25 of them were one hundred percent owned by Evergreen.

1 There was some partnerships and I couldn't tell
2 because there is so many, I would have to go look at
3 them and those would be typically a fifty-fifty
4 profits participation.

5 UNIDENTIFIED MALE: Now are there two
6 Evergreen entities out there that we sometimes talk
7 about within these combined cases?

8 MR. KIMBALL: Yes.

9 UNIDENTIFIED MALE: And the one who
10 is chiefly the sole member of all of these lending
11 companies, that's Evergreen --

12 MR. KIMBALL: Capital partners.

13 UNIDENTIFIED MALE: Okay. And what's
14 the other Evergreen entity?

15 MR. KIMBALL: Evergreen
16 International.

17 UNIDENTIFIED MALE: Is Evergreen
18 International the only one that is associated with
19 some of the International entities, International
20 business --

21 MR. KIMBALL: It doesn't have
22 anything to do with the United States businesses.

23 UNIDENTIFIED MALE: Okay. When we
24 talk about some of the Russian vistas, the Ivonics,
25 all that, is that associated with Evergreen Capital

1 or Evergreen International?

2 MR. KIMBALL: Evergreen

3 International.

4 UNIDENTIFIED MALE: Who were the
5 members of Evergreen Capital?

6 MR. KIMBALL: Sam Furseth and Del
7 Kimball.

8 UNIDENTIFIED MALE: So the entities
9 that were, had investors that were lending equity
10 instead of debt because I think that was testimony.
11 There were some that were more equity partners in
12 these than there were debt, were those, was the
13 member of those portfolios someone other than
14 Evergreen to allow other investors to be a part of
15 it?

16 MR. KIMBALL: I'm not sure I'm
17 following but if you weren't out of debt, LLC, the
18 LLC would be a fifty-fifty partnership, again I will
19 use you as an example. You would be fifty percent
20 partners with Evergreen in a Delaware LLC and you
21 would still pay twenty percent and you would get
22 instead of a fixed amount monthly, it would be a
23 variable amount based upon the profitability of the
24 portfolio on the given month.

25 UNIDENTIFIED MALE: Do you have any

1 examples of what some of the entities on that list
2 that would have been equity as opposed to debt
3 investments?

4 MR. KIMBALL: I can't remember, we
5 had so many, but there were, it was probably eighty
6 percent debt and twenty percent equity.

7 UNIDENTIFIED MALE: That was my next
8 question, okay.

9 MR. KIMBALL: The equity people, we
10 only allow people to become equity partners typically
11 after they had a debt instrument meaning they've
12 become familiar with us and the way the system
13 worked, because there may be months where you might
14 not get a payment and despite having two teenagers, I
15 didn't want to have any more temper tantrums that I
16 already was having when somebody didn't get a
17 payment.

18 EDWARD NAZAAR: Who kept track of all
19 this stuff for you? This is really complex.

20 MR. KIMBALL: At our high point, I
21 think we had three hundred and fifty employees.

22 EDWARD NAZAAR: But there must have
23 been several key employees that were really your --

24 MR. KIMBALL: Within the accounting
25 department that kept track of the monetary side.

1 UNIDENTIFIED MALE: And was that a
2 kind of department of LTS itself by that time?

3 MR. KIMBALL: Of the three hundred
4 fifty employees, let's just say two hundred of them
5 were directly for LTS or Glacier. A hundred or
6 hundred and fifty of them were third party call
7 centers just because we didn't have enough space at
8 our facility to add personnel so we hired third party
9 call centers which, you know, when you call your Visa
10 card you're not talking to Citibank you're talking to
11 a call center in Canada or Costa Rica or someplace.
12 We did the exact same thing.

13 EDWARD NAZAAR: But for instance,
14 none of the --

15 MR. KIMBALL: None of the functions
16 of the accounting was outside of LTS.

17 EDWARD NAZAAR: None of the lending
18 company had employees --

19 MR. KIMBALL: No, none of these
20 companies had any employees.

21 EDWARD NAZAAR: Evergreen Capital did
22 not have any employees?

23 MR. KIMBALL: No.

24 EDWARD NAZAAR: Okay.

25 MR. KIMBALL: Do you mind passing me

1 the water? Thank you.

2 UNIDENTIFIED MALE: Sir, are you
3 familiar, are you not, with the bankruptcy schedules
4 that were prepared in this case, the LTS case?

5 MR. KIMBALL: I would like to think I
6 am but I'm probably not based on my last -- not
7 familiar as I should be.

8 UNIDENTIFIED MALE: I understand.
9 I'm looking at, let me start with Doc number 100
10 which was filed December 4, 2015 which is a statement
11 of financial affairs. I believe this document bears
12 your signature, if I can show it to you. Let me kind
13 of go on from there. Simultaneously, at the same
14 time Schedule B was filed, which was a list of
15 assets, Schedule D Secured Creditors, Schedule E
16 Priority Creditors, Schedule F General Creditors,
17 Schedule G Executory Contracts, Schedule H
18 Co-debtors and then earlier on September 27th you
19 filed an earlier statement of a, there was a
20 voluntary petition that was filed early on. If I'm
21 going to hand this to you, would you review this?

22 MR. KIMBALL: The entire --

23 UNIDENTIFIED MALE: Yeah, I mean,
24 because I'm going to ask you some questions but I
25 want to make sure you have some familiarity with it

1 and recognize this document.

2 UNIDENTIFIED FEMALE: I have at least
3 a Statement of Financial Affairs, if he wants to keep
4 that in front of him.

5 UNIDENTIFIED MALE: Okay, thank you.
6 While you're looking, were these documents prepared
7 with your participation of the --

8 MR. KIMBALL: Yes, I mean all these
9 names are familiar and I gave the information to Mr.
10 Pelofsky to help me do this. I'm sure based upon to
11 what's happened to me in the last several meetings
12 that there is probably amendments and mistakes, but -
13 -

14 UNIDENTIFIED MALE: Yeah, I'm not
15 here to trick you, I'm really just trying to find out
16 some information.

17 MR. KIMBALL: Sure, I'm happy to
18 answer any questions that you have. I mean there is
19 quite a list of creditors that I can't tell you for a
20 fact that the amounts right, one hundred percent
21 accurate. They were pulled off the accounts
22 receivable on the accounting software.

23 UNIDENTIFIED MALE: I think operation
24 chokepoint occurred in August of 2014?

25 MR. KIMBALL: August 8, 2013 was the

1 announcement.

2 UNIDENTIFIED MALE: And why did this
3 business fail?

4 MR. KIMBALL: It didn't fail, we lost
5 all of our bank accounts.

6 UNIDENTIFIED MALE: You mean access
7 to them or --

8 MR. KIMBALL: The bank closed all of
9 our bank accounts.

10 UNIDENTIFIED MALE: And which bank
11 was that?

12 MR. KIMBALL: Core First.

13 UNIDENTIFIED MALE: In Topeka? Or
14 here?

15 MR. KIMBALL: They are Commerce in
16 Topeka and are Core in Kansas City.

17 UNIDENTIFIED MALE: Okay.

18 MR. KIMBALL: Without access to the
19 bank account, you cannot make or receive any
20 payments. We didn't have a bank account, they just
21 closed them all.

22 UNIDENTIFIED MALE: And the Core
23 First accounts you're referring to, were those the
24 LTS management or were these of these various
25 entities?

1 MR. KIMBALL: All of them.

2 UNIDENTIFIED MALE: How many bank
3 accounts did LTS management have in 2013?

4 MR. KIMBALL: LTS management or all
5 these funds?

6 UNIDENTIFIED MALE: Let's start with
7 LTS management.

8 MR. KIMBALL: I don't know, probably
9 two or three.

10 UNIDENTIFIED MALE: All at Core
11 First?

12 MR. KIMBALL: All at Core First.

13 UNIDENTIFIED MALE: And at that time,
14 wasn't the operation run under the name of Glacier
15 Management?

16 MR. KIMBALL: Yes.

17 UNIDENTIFIED MALE: And I think
18 yesterday you explained that this was really more of
19 a name change than anything else.

20 MR. KIMBALL: There were two reasons
21 for the change. One, is that we had investors who
22 were concerned about priority of their loans and
23 since LTS had debt, we didn't want the employees to
24 feel like LTS should get better loans so we wanted to
25 get a vehicle that had no loans to it. So we could

1 say Glacier has no skin in the game. Does that make
2 sense?

3 UNIDENTIFIED MALE: I'm confused but
4 go ahead.

5 MR. KIMBALL: Also, LTS management
6 had bene around a long time and part of the reason
7 was is that we felt a name change was appropriate
8 given the regulatory things that were going on in
9 Washington, DC.

10 UNIDENTIFIED MALE: But Glacier, and
11 we're talking about Glacier Management Services, LLC?

12 MR. KIMBALL: Yes.

13 UNIDENTIFIED MALE: And that was a
14 Delaware LLC?

15 MR. KIMBALL: I believe so. I would
16 have to double check.

17 UNIDENTIFIED MALE: And it performed
18 the same duties and activities that LTS Management
19 LLC did before that?

20 MR. KIMBALL: Exactly the same.

21 UNIDENTIFIED MALE: Now what confused
22 me about what you were saying is that you referred to
23 the LTS Management had loans.

24 MR. KIMBALL: A long time ago it did.
25 It had borrowed money from individuals.

1 UNIDENTIFIED MALE: And had never
2 paid them back?

3 MR. KIMBALL: No, everybody was paid
4 on schedule, but Glacier Management didn't have any,
5 hadn't borrowed any money from anybody.

6 UNIDENTIFIED MALE: And so were there
7 documents that transferred the assets of LTS
8 Management to Glacier Management Services, LLC? Was
9 it a purchase agreement? Did Glacier Management
10 Services buy the assets of LTS Management?

11 MR. KIMBALL: What do you mean by
12 assets?

13 UNIDENTIFIED MALE: I'm presuming
14 that LTS Management held certain tangible or
15 intangible assets on its balance sheet.

16 MR. KIMBALL: If there is a document,
17 I'm not aware of it. The assets would be like
18 chairs, and desks and what not.

19 UNIDENTIFIED MALE: And service
20 agreements to the various LLC such as Richmond.

21 MR. KIMBALL: I can't remember if we
22 re-did the service agreements or not, but I can
23 check.

24 UNIDENTIFIED MALE: Were they
25 assigned to --

1 MR. KIMBALL: They might have been
2 reassigned.

3 UNIDENTIFIED MALE: But Glacier and
4 LTS were in fact two different companies. It wasn't
5 just a name change of the same company.

6 MR. KIMBALL: They essentially did
7 the same exact thing, they just didn't -- sorry, it's
8 hard to look at this and --

9 UNIDENTIFIED MALE: (Laughing) My
10 fault.

11 MR. KIMBALL: It was a name change.
12 You know when Phillip Morris became Altria (ph) --

13 UNIDENTIFIED MALE: I mean do you
14 personally know whether an attorney filed papers to
15 change the name of an existing company at that time
16 or filed new LLC papers?

17 MR. KIMBALL: We created a new LLC,
18 changed the payroll, the 401K, and there is documents
19 in there somewhere. I've never looked at them.

20 UNIDENTIFIED MALE: But you think it
21 got a different EIN back then, Employer
22 Identification Number.

23 MR. KIMBALL: Of course.

24 UNIDENTIFIED MALE: All right.

25 MR. KIMBALL: I don't know if I'm

1 answering your question correctly.

2 UNIDENTIFIED MALE: Did Glacier pay
3 any amount of money to LTS to assume all of these
4 agreements or responsibilities?

5 MR. KIMBALL: No.

6 UNIDENTIFIED MALE: If I could follow
7 up on a topic yesterday, two steps back before get
8 away from it too much. If I was following this
9 correctly, all of the bank accounts of what was by
10 the name I guess Glacier, would that be right? The
11 LTS bank accounts were transferred to Glacier as
12 well?

13 MR. KIMBALL: No. LTS maintained
14 bank accounts as the Glacier.

15 UNIDENTIFIED MALE: But the Glacier,
16 I'm sorry.

17 UNIDENTIFIED MALE: Go ahead.

18 UNIDENTIFIED MALE: But the Glacier
19 accounts were not at Core First.

20 MR. KIMBALL: Every bank account was
21 at Core First.

22 UNIDENTIFIED MALE: We have a
23 document here from Five Star Bank --

24 MR. KIMBALL: That was after
25 Operation Chokepoint. We are talking pre-Operation

1 Chokepoint.

2 UNIDENTIFIED MALE: I'm with you now.

3 UNIDENTIFIED MALE: Okay, let me then
4 focus in on that fateful day. Okay, so Glacier
5 accounts are there at Core First --

6 MR. KIMBALL: Every --

7 UNIDENTIFIED MALE: LTS and every
8 account associated with those lending companies is
9 all the same bank.

10 MR. KIMBALL: All the US Delaware LLC
11 accounts including Glacier, LTS, were at Core First.
12 We had accounts in the Isle of Man and Farclase (ph)
13 .

14 UNIDENTIFIED MALE: Okay. So
15 CoreFirst, you said closed the accounts. They
16 closed, you said, hundreds of accounts all in the
17 same day?

18 MR. KIMBALL: I don't know how many
19 accounts it was, it was significant.

20 UNIDENTIFIED MALE: Okay, but it was
21 every one that was there?

22 MR. KIMBALL: Yes.

23 UNIDENTIFIED MALE: All in the same
24 day?

25 MR. KIMBALL: Exactly.

1 UNIDENTIFIED MALE: And that day was
2 what day?

3 MR. KIMBALL: I don't have the letter
4 on me, but I believe it was mid September 2013.

5 UNIDENTIFIED MALE: Okay. And on
6 that day when they closed the accounts, did they say,
7 you know to the account holders in some way that you
8 Mr. Account Holder either owe us money or we owe you
9 money, here's your check.

10 MR. KIMBALL: I'm not sure I
11 understand your question.

12 UNIDENTIFIED MALE: Well, banks don't
13 normally steal the depositors or --

14 MR. KIMBALL: Not normally but they
15 do a lot of --

16 UNIDENTIFIED MALE: Or accept a loss
17 on their own, okay. They'll usually say if they
18 close an account, it either has a balance of money
19 owed to the depositor or maybe there has been an
20 insufficient check or something and they are owed
21 money. One way or another they let their account
22 holders know whether one owes money or the other
23 does, or whether for some reason they just came out
24 at zero. Did CoreFirst give any notice on that day,
25 on certain accounts owed balances to the depositors

1 or on certain depositors owed them additional money?

2 MR. KIMBALL: I don't recall, but we,
3 I recall that we had to, because of the way the ACH
4 system works, I don't know if you're familiar with
5 that, but its called the Automatic Clearing House,
6 which is how we received our payments.

7 UNIDENTIFIED MALE: Okay.

8 MR. KIMBALL: We had to have a
9 reserve account at CoreFirst for a certain amount of
10 time because they have in the banking laws, there is
11 a sixty day window that people can revoke a payment
12 and they have to replace that payment. So we had to
13 put a reserve account, and I can't remember what
14 account that was, but the majority of the accounts on
15 the day they were closed, the money was either, there
16 was either no money or it may have -- I don't
17 remember because I mean you're talking about total
18 devastation. We got all -- most of the accounts I
19 think had no money in them because they had not
20 allowed us to continue to process even though the
21 account was open, but they just gave us a date that
22 this is the day that your accounts are going to be --

23 UNIDENTIFIED MALE: And that's
24 because of that Chokepoint had happened earlier --

25 MR. KIMBALL: Originally, ordinally

1 the, the president of the bank had called me, not to
2 toot my own horn, but typically when you have a
3 hundred accounts you're getting calls from the
4 president of the bank and had given me a four-month
5 window to wind down the relationship with the bank.
6 Two weeks later, he gave me one day and I said, you
7 can't give me one day. There is no way I can, you
8 know, we've been operating together for five years
9 and so he gave me one week, and to be quite honest I
10 would have to go back and recollect because it was
11 quite a bit of shock. You know, this, you know
12 fifteen business have been in business for thirteen
13 years and --

14 UNIDENTIFIED MALE: And was it the
15 effect of Chokepoint that CoreFirst, that other banks
16 weren't all standing by wanting to take those types
17 of accounts and you couldn't just go to the next bank
18 and --

19 MR. KIMBALL: I have a letter from
20 CoreFirst that, Mr. Pelofsky has seen it, shows they
21 shut down our accounts because of Operation
22 Chokehold.

23 UNIDENTIFIED MALE: Okay. And if, if
24 those accounts by that time, a few months after
25 Operation Chokehold, and had some little money, okay,

1 what by and large happened to the accounts that were
2 up to point of Chokepoint running successfully. What
3 happened to the money in those accounts?

4 MR. KIMBALL: There was a period when
5 we had no bank accounts. So I would have to go back
6 and look at that October to December period to see
7 what happened to it. We tried to get our bank to
8 process the Isle of Man loans in Canada to take over
9 the processing but they refused and we got a, we
10 snuck a few in quite honestly off the record, but for
11 the most part they just vaporized. So as far as the
12 money goes, I would have to go look because I
13 couldn't tell you, there were so many accounts.

14 UNIDENTIFIED MALE: Okay.

15 MR. KIMBALL: But in this, it's kind
16 of like that game, musical chairs. As soon as the
17 music stops and this type of borrower knew that
18 nobody was going to process their payments any more,
19 it was like a mad dash. They all just disappeared.

20 UNIDENTIFIED MALE: Meaning that the
21 enduser guys on the Internet who wished to make small
22 micro --

23 MR. KIMBALL: People who had existing
24 balances with us, if you don't, if they think on
25 Friday that fifty dollars is going to be taken out of

1 their bank, it doesn't happen, they instantly revoke
2 the authorization or they read it in the paper. I
3 mean there is hundreds and hundreds of blogs out
4 there about how to get out of your loans.

5 UNIDENTIFIED MALE: Okay, so at the
6 very retail level of where the guy is actually making
7 the small, he is borrowing micro amounts of money, he
8 just quits paying.

9 MR. PELOFSKY: As I understand it,
10 they never voluntarily paid anything.

11 MR. KIMBALL: No, we had --

12 UNIDENTIFIED MALE: They were taking
13 out of their bank accounts.

14 MR. PELOFSKY: Yeah, it was --

15 MR. KIMBALL: They signed over
16 authorization for us to debt their bank account,
17 otherwise we would not give them a loan.

18 UNIDENTIFIED MALE: So right up to
19 Operation Checkpoint, these retailer borrowers had
20 not heard that it's okay just to stop payment or
21 whatever.

22 MR. KIMBALL: Thirty percent of them
23 for thirteen years stopped paying --

24 UNIDENTIFIED MALE: (Laughing), okay,
25 okay. But even with that kind of failure rate, you

1 were still able to issue promissory notes with very
2 high interest rates, pay twenty percent, you know,
3 fees to LTS.

4 MR. KIMBALL: Under Federal Trade
5 Commission law we had to disclose the equivalent
6 interest rate to the fee of the 732%.

7 UNIDENTIFIED MALE: So if there is a
8 day before Chokepoint that LTS accounts, Glacier
9 accounts, lending company accounts, as we see the
10 names of so many LLCs on that list that they all have
11 healthy bank accounts going and that the twenty
12 percent fees are still being paid because business is
13 going to, when did that start to come apart? When
14 did the investments, the promissory notes, the LLCs
15 street money, maybe that's the right term, you had a
16 certain amount of money on the street, when did that
17 amount of money on the street start contracting?

18 MR. KIMBALL: When the bank account
19 was closed at CoreFirst, the majority of the money
20 disappeared within that two week period of time.

21 UNIDENTIFIED MALE: Okay, so when
22 CoreFirst closed the bank account, you still had
23 serious money on the streets --

24 MR. KIMBALL: Yes.

25 UNIDENTIFIED MALE: When they closed

1 them.

2 MR. KIMBALL: And then what we tried
3 to transfer to the Canadian bank that processed the
4 Isle of Man, they closed our account in October. We
5 will have our employees because we are under the
6 impression from our Lobbyist that they had a work
7 around this problem, there was a solution. We were
8 getting calls daily by what they call third party
9 processing companies. Those would be companies that
10 would, let's just say Mr. Cazaar (ph) owned the bank.
11 They would hire somebody to go out and sell the bank
12 services for them, one of them being processing.
13 Hundreds of these companies sprang out of into
14 existence in September and October and were calling
15 me or my operations manager, John Kimball, saying we
16 can process your payments. We must have filled out,
17 I think we filled out ninety-five applications in one
18 month and those companies would last maybe a week and
19 so we were attempting to recover whatever we could
20 that was on the street, whether it was, the loan was
21 made out of Kansas City or the Isle of Man, but this
22 type of borrower given any circumstance of not having
23 to pay will disappear very quickly.

24 UNIDENTIFIED MALE: Okay.

25 MR. KIMBALL: So you're trying to

1 figure what were the bank balances on the day we
2 closed, I don't know I would have to go look and I
3 don't know where we put them, because at one point we
4 had no bank accounts.

5 UNIDENTIFIED MALE: Okay. Let me see
6 if my notes basically are good enough. August of
7 2013 is chokepoint, correct?

8 MR. KIMBALL: That's when it was
9 announced.

10 UNIDENTIFIED MALE: Okay. September,
11 October 2013, by then you're already dealing with a
12 sudden and brand new industry of third party payment
13 processors.

14 MR. KIMBALL: Well, once all the
15 banks was, it was a domino effect. For example,
16 Missouri Bank of Trust, a well-known bank here in
17 town was on the list of banks filed against, by the
18 Department of Justice. The New York Financial Crimes
19 Commission and the FDIC. So any other bank in Kansas
20 City instantly went into panic mode.

21 UNIDENTIFIED MALE: Okay.

22 MR. KIMBALL: So CoreFirst was not on
23 that list. We were there, the sole online lending
24 customer of theirs. They didn't have anybody else.
25 They're FDIC typically, FDIC audits as I understand

1 it are in April and September and they had been told
2 in April, they knew about it in April. We know now,
3 we didn't know then.

4 UNIDENTIFIED MALE: Okay.

5 MR. KIMBALL: It was not a quiet nice
6 parting, like hey Del, thanks for the millions of
7 dollars you made for us for the years, if you could
8 get out of here by the end of the year, that'd be
9 great. It was like, it started out that way, but
10 then somebody pushed a button and said you got one
11 week, you have one day, and then they gave us a week.
12 So I'll have to tell you because I don't remember,
13 because at one point I believe that whatever funds
14 were available we tried to send to the Bank of Canada
15 and the Isle of Man. The Isle of Man is probably the
16 most highly regulated country in the world and they
17 rejected all of our efforts to do this, so I can't
18 tell you accurately, but I'll find out.

19 UNIDENTIFIED MALE: So again without
20 exactly precise dates, only about a week before they
21 actually close the accounts were they suddenly saying
22 this is coming down fast and they're given one day.

23 MR. KIMBALL: I was given four
24 months.

25 UNIDENTIFIED MALE: Okay.

1 MR. KIMBALL: Two weeks later I was
2 called and given one day.

3 UNIDENTIFIED MALE: Okay.

4 MR. KIMBALL: I begged for a month
5 and they gave me a week.

6 UNIDENTIFIED MALE: So the
7 approximate final day they actually closed those
8 accounts at CoreFirst was --

9 MR. KIMBALL: Mid-September.

10 UNIDENTIFIED MALE: Mid-September.
11 By the time that those accounts were closed, were you
12 already hearing from third party payment processors
13 or did you start hearing from them immediately after
14 that closure.

15 MR. KIMBALL: At the time, I was in
16 London when the CoreFirst called me, trying to obtain
17 financing for the Russian company from Jeffries and
18 Company which is a large investment bank in the
19 states so I was kind of caught off guard. So I was
20 not in Kansas City and I don't know who was calling
21 who, but I know that by the time I got back that,
22 like I said, we filed ninety-five plus applications
23 for processing, and I don't know how many, if any we
24 got.

25 UNIDENTIFIED MALE: Okay, and in

1 between the time of the August 2013 announcement and
2 the mid-September account closings, did you already
3 have investors or lenders associated with the
4 companies we have seen on your list. Were they
5 already in some retreat mode, and some form of
6 nervousness, starting to withdraw monies or to move
7 away?

8 MR. KIMBALL: No. We, because I was
9 busy working on what I thought was a potential IPO or
10 merger through Jeffries, we asked Mr. John Mullen
11 (ph), I gave him a list of investors and also some
12 investors and everybody knew that Kansas City is the
13 epicenter of online lending. We all informed
14 everybody that we were not going to make payments
15 until we knew what was going on because we didn't
16 know what was going on. We were getting news from one
17 side saying that the banks will be back in business
18 in two weeks and then it was on the other side that
19 everybody is going to jail. So we didn't know what
20 to think and so I called as many people as I could,
21 but you have to understand with the exception of
22 let's just say Brendon's clients, some of his clients
23 I knew personally and some of them I didn't know at
24 all, but most of the people I knew personally, so I
25 just made a bunch of phone calls. Everybody in

1 Kansas City knew what was going on and said, hey we
2 got to figure this out. We don't know what the heck
3 is going on. Just sit tight until we figure it out
4 and it never was able to get figured out
5 unfortunately.

6 UNIDENTIFIED MALE: How did the
7 (inaudible) like this take (inaudible) as an example,
8 how are they making money? Were they getting like a
9 processing fee for ACH transactions?

10 MR. KIMBALL: ACH, they got eight
11 cents for a debit and a credit. I'm glad you brought
12 this up because this is very interesting. And they
13 got sixty-five cents for return, and a return means
14 an insufficient fund or an authorization revoked or
15 closed bank account. So when you're talking about
16 hundreds of thousands of processing payments over a
17 quarter or a month, it's a lot of money. The going
18 rate for these new processors was four dollars a
19 debit and credit and six to eight dollars a return,
20 so it went from eight cents to four dollars, and from
21 sixty-five cents to seven to ten dollars.

22 UNIDENTIFIED MALE: So at CoreFirst,
23 if you wanted to make the two hundred dollar loan or
24 whatever the dollar amount it was going to be eight
25 cents to give it to them.

1 MR. KIMBALL: To send you two hundred
2 dollars it cost eight cents.

3 UNIDENTIFIED MALE: To get fifty
4 bucks or try to get fifty bucks back.

5 MR. KIMBALL: Yes. And so if that
6 payment was returned, I paid eight cents and then
7 sixty-five cents on top of it.

8 UNIDENTIFIED MALE: And I want to say
9 sometime in 2011, the banking relationship for the
10 LTS group of companies changed from Missouri Bank to
11 CoreFirst Bank?

12 MR. KIMBALL: At first, we spilt,
13 each bank had a dual account, so let's just take
14 Camden that we were using earlier, the Camden
15 Missouri Bank and then CoreFirst. CoreFirst gave us
16 the mortgage on our building and part of the
17 understanding of that mortgage is that we would
18 migrate the ACH or processing side of the operations
19 to them because it's very lucrative. Under, to be a
20 Federally Chartered bank you have to have this
21 service in your bank whether you want it or not.
22 Most banks do utilize it and use it as a profit
23 center. So they had already spent the money on the
24 software and the personnel, so we made them a lot of
25 money. Missouri Bank for example, was a very large

1 processing bank for this industry. We essentially
2 taught them how to do it in 2001 and we were their
3 only customer until they decided to bring on other
4 customers.

5 UNIDENTIFIED MALE: When you said
6 that CoreFirst Bank made the loan on the building --

7 MR. KIMBALL: 908 Baltimore.

8 UNIDENTIFIED MALE: 908 Baltimore, so
9 was 908 Baltimore at one point titled in LTS
10 Management Services?

11 MR. KIMBALL: No. It was a Federal
12 tax partnership with Chevron Oil.

13 UNIDENTIFIED MALE: Condo unit.

14 UNIDENTIFIED MALE: Yeah.

15 MR. KIMBALL: We used to store
16 Federal Tax credits with Chevron Oil and the entity
17 called 107 West 9th Street and then the building
18 loan, I believe, was at 110 West 9th Street and that
19 was where the mortgage was held and we got State and
20 Federal Tax Credits which subsequently the IRS took
21 away from us.

22 UNIDENTIFIED MALE: So who was the
23 party to the condo? A separate entity.

24 MR. KIMBALL: A separate entity
25 called 107 West 9th Street. The tenant was LTS

1 Management. The partner was Chevron Oil through
2 their Tax Credit Department in St. Louis represented
3 by Armstrong Teesdale (ph) and I can give you that
4 information.

5 UNIDENTIFIED MALE: So looking, if I
6 could go with the schedules, do these schedules that
7 you have filed, do they look true and accurate to the
8 best of your knowledge and belief?

9 MR. KIMBALL: Uh, uh, after the brief
10 glance at, that everything seems very familiar.

11 UNIDENTIFIED MALE: Okay. If we
12 could, let's kind of work through them if we can.
13 Question two, talks about that LTS Management LLC had
14 received ten million, three hundred sixty-five
15 thousand, seven hundred and fifty-six dollars of
16 income for business operations in 2013. Was the tax
17 return prepared for that?

18 MR. KIMBALL: I'm sure there was.

19 UNIDENTIFIED MALE: Okay, who would
20 prepare the taxes?

21 MR. KIMBALL: All the tax returns
22 were prepared by Russ Coka (ph).

23 UNIDENTIFIED MALE: Okay. And --

24 MR. PELOFSKY: You don't have this?

25 UNIDENTIFIED MALE: I do not.

1 MR. PELOFSKY: I will see that you
2 get one. UNIDENTIFIED MALE: Okay.
3 And question two also says that there was no income
4 for 2014. I am a little confused because I thought
5 yesterday there was some indication that there was
6 some income in 2014 for LTS Management.

7 MR. KIMBALL: I have not seen the tax
8 return so I can't accurately answer that question.

9 UNIDENTIFIED MALE: What was your
10 title with LTS Management?

11 MR. KIMBALL: Managing member.

12 UNIDENTIFIED MALE: And then I heard
13 that Mr. Furseth referred to himself as president.

14 MR. KIMBALL: Furseth.

15 UNIDENTIFIED MALE: Furseth, I'm
16 sorry. Referred to him as president, was that kind
17 of a (inaudible), he was also a managing member?

18 MR. KIMBALL: Well, to be quite
19 honest if it was a Sub-S Corporation I would not be
20 managing that but I would then be CEO.

21 UNIDENTIFIED MALE: Yeah.

22 MR. KIMBALL: I can't remember if LTS
23 is an LLC or Sub S.

24 UNIDENTIFIED MALE: I think it is an
25 LLC according to the schedules.

1 MR. KIMBALL: If it's an LLC, I was a
2 managing member. Sam would be a member. President
3 was a fictional title for the employees.

4 UNIDENTIFIED MALE: Okay.

5 MR. KIMBALL: Just like my title is
6 CEO because there is no CEOs in (inaudible).

7 UNIDENTIFIED MALE: Is the operating
8 agreement and the articles of organization available
9 for LTS management?

10 MR. KIMBALL: Yes.

11 UNIDENTIFIED MALE: Okay. And was
12 that formed by Mr. Mullen?

13 MR. KIMBALL: It was already, we
14 formed it ourselves in 1999. It was amended from
15 Laptop Shop to LTS and I believe the, Ms. Stanton was
16 in 2004, was that operating agreement that I sent to
17 you when we amended it?

18 UNIDENTIFIED FEMALE: I don't
19 remember off the top of my head but --

20 MR. KIMBALL: I believe it was 2004
21 we officially became, you have to remember sir that
22 for, until 2003, we didn't have an employee, so we
23 were just entrepreneurs and formalized documents and
24 to the excess, but I do have a formal amended
25 operating agreement that I am happy to send to you.

1 UNIDENTIFIED MALE: Right. And then
2 there was either a name change to Glacier Management
3 Services.

4 MR. KIMBALL: Yeah, I'll find those,
5 I'll find those documents for you.

6 UNIDENTIFIED MALE: And you have
7 answered in regards to payments to creditors that
8 there were no payments to creditors within ninety
9 days before the commencement of the case and the case
10 commenced August 5, 2015.

11 MR. KIMBALL: Not to my knowledge.

12 UNIDENTIFIED MALE: Okay. And at
13 that point on August 5, 2015, the bank account, was
14 there a bank account for LTS Management Services,
15 LLC, or was it in the name of Glacier Management
16 Services?

17 MR. KIMBALL: There was (inaudible)
18 for both.

19 UNIDENTIFIED MALE: And where was the
20 bank account then --

21 MR. KIMBALL: Five Star Bank.

22 UNIDENTIFIED MALE: For both, for
23 both LTS Management and Glacier?

24 MR. KIMBALL: Yes. Happy to provide
25 opening to August bank statements, if you don't have

1 them already.

2 UNIDENTIFIED MALE: All right. What
3 was the relationship with Agile Fish and LTS
4 Management Services?

5 MR. KIMBALL: Agile Fish is the
6 company that when we closed Glacier Management, we
7 had, Buscher (ph) Management had an ongoing
8 relationship with several Native American tribes that
9 was generating some revenue, but Glacier Management
10 was not able to sustain that relationship. Agile
11 Fish basically took over that relationship and hired
12 the employees, the few remaining employees that were
13 left at Glacier Management and mostly to maintain the
14 DMS software and then have a way to support the
15 version of the VMS software that was converted to, to
16 the Russian business.

17 UNIDENTIFIED MALE: And, and the VMS
18 software was an asset of LTS --

19 MR. KIMBALL: No.

20 UNIDENTIFIED MALE: Management
21 Services.

22 MR. KIMBALL: It was owned by DMS
23 Marketing.

24 UNIDENTIFIED MALE: And then under
25 what authority could LTS Management Services use that

1 software? Permissively, just permissively?

2 MR. KIMBALL: Permissively yeah.

3 UNIDENTIFIED MALE: No fee was paid?

4 MR. KIMBALL: It was common, it was
5 common, the owners were all the same.

6 UNIDENTIFIED MALE: The owners being
7 Mr. Furseth --

8 MR. KIMBALL: Furseth and myself.

9 UNIDENTIFIED MALE: And yourself.

10 MR. KIMBALL: You have to understand,
11 when this was all occurring in the early 2000s, the
12 formalization of agreements and, I don't even think
13 we had an attorney until (Laughing) until 2004, so.

14 UNIDENTIFIED MALE: And so did DMS
15 have any employees?

16 MR. KIMBALL: I don't recall.

17 UNIDENTIFIED MALE: And so when there
18 were software changes or other patches or fixes due
19 to the software, LTS was advancing the moneys for
20 those changes?

21 MR. KIMBALL: I'm not sure I
22 understand your question, but if you're asking if we
23 modified the software, who did that, they were
24 employees of LTS Management and then later Glacier
25 Management.

1 UNIDENTIFIED MALE: Did DMS file a
2 tax return?

3 MR. KIMBALL: I believe so.

4 UNIDENTIFIED MALE: And what was the
5 revenue that DMS had?

6 MR. KIMBALL: I don't know, its been
7 a long time.

8 UNIDENTIFIED MALE: Again, that's
9 another question for Mr. Coka.

10 MR. KIMBALL: Yes. I don't know if
11 his records go back that far.

12 UNIDENTIFIED MALE: Okay.

13 MR. KIMBALL: At one point he was
14 with Grant Thornton and that might have been when he
15 was with Grant Thornton before he went out and
16 created his own --

17 UNIDENTIFIED MALE: Well, let me ask
18 this question, what the last time that entity had
19 revenue?

20 MR. KIMBALL: I don't know.

21 UNIDENTIFIED MALE: Was there any
22 revenue in the last three years?

23 MR. KIMBALL: I don't believe so.
24 The last two years we've been out of business, so.

25 UNIDENTIFIED MALE: I understand,

1 well in 2013 was there any revenue that was booked as
2 attributable to DMS?

3 MR. KIMBALL: I don't believe so.

4 UNIDENTIFIED MALE: Again, I'm
5 looking at the Statement of Financial Affairs which
6 you had briefly reviewed. There are a number of
7 lawsuits that were shown in question number four.
8 One was Sirius Partners LLC which I believe Mr.
9 Malone's, is one of Mr. Malone's clients and there is
10 also Kember, K-E-M-B-E-R, or was that Kemper?

11 UNIDENTIFIED MALE: Kemper Marketing?

12 UNIDENTIFIED MALE: Kemper, yeah.

13 Its here as Kember, K-E-M-B-E-R. Kemper Marketing.

14 UNIDENTIFIED MALE: Was a co-
15 dependent.

16 UNIDENTIFIED MALE: Co-dependent and
17 the date and the ventures, and then Mr. Kimball. My
18 sense of this is Sirius Partners LLC had loaned money
19 to LTS Management Services, is that the basis of the
20 lawsuit?

21 MR. KIMBALL: The lawsuit, I believe,
22 was against Dayton (ph) and Kemper, and there was a
23 partial personal guarantee of myself on one of the
24 promissory notes.

25 UNIDENTIFIED MALE: Then, and Dayton

1 and Kemper are one of these entities that are either
2 identified or --

3 MR. KIMBALL: I didn't look for those
4 specifically but they should be on there, if they are
5 not we can find them.

6 UNIDENTIFIED MALE: And what I and
7 what I am referring to is Doc 82-1 from your personal
8 bankruptcy schedules which show these and by the way,
9 these particular entities that we are talking about,
10 and we have been using Richmond as an example.
11 Richmond had a certain tranche of loans, of these
12 microloans associated with it, did they not?

13 MR. KIMBALL: Yes.

14 UNIDENTIFIED MALE: And how were those
15 tranches of loans allocated to it? On kind of a day
16 by day basis?

17 MR. KIMBALL: Day by day basis.

18 UNIDENTIFIED MALE: And so there is,
19 were each of these entities, like Richmond, and
20 Noble, and Maple, did they have the exact same
21 funding either through loans or equity or did they
22 vary between them?

23 MR. KIMBALL: You talking about the
24 funding, how did they get money to?

25 UNIDENTIFIED MALE: Well, I just want

1 to know for purposes of how you did this business.

2 MR. KIMBALL: Are you talking about
3 when we lent bank to the customer or the investor --

4 UNIDENTIFIED MALE: The investor end
5 first. So, the investor, what was the typical amount
6 of funding per, if I can call these a special entity
7 or special purpose entity, how much money would be
8 allocated per entity from the investor or its lender?
9 Was it a uniform amount per each or did it vary?

10 MR. KIMBALL: They all varied.

11 UNIDENTIFIED MALE: My questions is
12 did you utilize a business model and I think you may
13 have answered this but I just want to get it straight
14 in my mind, but it wasn't like each of these entities
15 was funded with five hundred thousand dollars.

16 MR. KIMBALL: They are all various
17 amounts.

18 UNIDENTIFIED MALE: And why various
19 amounts? Because there was an infinity between the
20 investors or the lenders that determined?

21 MR. KIMBALL: There was no
22 determination. The investor, the potential investor
23 typically would call me or I knew them and we'd go
24 have a beer or something, and they'd say, hey Del I
25 got seven hundred thousand dollars that I want to

1 invest. So I say, we drop a promissory note, make an
2 amortization schedule, create an LLC, put the money
3 in the LLC, and start doing business.

4 UNIDENTIFIED MALE: And those
5 promissory notes were typically like twenty to
6 thirty-five percent or?

7 MR. KIMBALL: They varied. We tried
8 to keep them uniform but Kansas City as I said was
9 the epicenter of the lending market and so many times
10 the individual would say, well I can go to Bill over
11 here and he will give me thirty-seven percent when I
12 am offering him thirty, so go to Bill or we would
13 negotiate some amount in between. So I tried to keep
14 it uniform at thirty percent but it didn't work
15 because of the competition and in the city there was
16 easily, easily fifty, sixty companies doing exactly
17 what I was doing but I was considered one of the
18 largest overall, just the number of entities and the
19 most consistent.

20 UNIDENTIFIED MALE: Okay, on the flip
21 side, when you made an individual loan to a consumer,
22 how is that determination made as to what the
23 electing entity was for that individual --

24 MR. KIMBALL: So on a given day,
25 let's say on today we made three hundred thousand

1 dollars' worth of loans. We would look at the fifty
2 entities that had available capital and let's just
3 use Richmond, like we said if Richmond had an
4 investment and let's say they were way below their
5 investment level, they may get a larger allocation
6 than normal but what we typically try to do is just
7 allocate it evenly based upon the cash available in
8 each account, but for simplicity, we wouldn't make,
9 all fifty companies on one day would not get loans,
10 it would be just an accounting nightmare and the bank
11 would go crazy because that would mean you have to
12 send fifty different files. So on a typical day, say
13 half of the companies would get allocated and then
14 the next day we would allocate the next half and it
15 was basically based upon available cash in the
16 account versus portfolio balance, versus whether or
17 not they paid their management fees for the month.
18 There is a bunch of different factors but they were
19 not treated by like, oh let's give, they didn't use
20 the Sam and Del loan, they, they, the highest credit
21 score guys, it was, it was --

22 UNIDENTIFIED MALE: Was this all done
23 on a manual basis by somebody in accounting.

24 MR. KIMBALL: Unfortunately that
25 process had to be done manually. The software was

1 not sophisticated enough to do that.

2 UNIDENTIFIED MALE: So somebody on a
3 day to day basis in your accounting, in LTS
4 accounting department and then I guess later
5 Glacier's accounting department, day to day
6 allocation of the --

7 MR. KIMBALL: Yeah and some poor
8 person at Missouri Bank had to work until eleven
9 o'clock every night because we were allowed to send a
10 file up to ten o'clock at night, files. And for each
11 entity, we would have to send a credit file and a
12 debit file, and you can only imagine when you have
13 fifty, we'll just say fifty, that's a hundred
14 different files every single day that they have to
15 drop into their software system and our software
16 systems don't communicate.

17 UNIDENTIFIED MALE: When you made a
18 consumer loan to individual consumer, was there a
19 written documentation on that one?

20 MR. KIMBALL: Yes. There is a loan
21 agreement.

22 UNIDENTIFIED MALE: Okay, so who was
23 the, who was the obligor or obligated to pay to? Was
24 it LTS?

25 MR. KIMBALL: It would be, Richmond

1 would be (inaudible).

2 UNIDENTIFIED MALE: So when they, at
3 the time that the two hundred loan was made and that
4 note was executed, it would have already been
5 determined that Richmond would make --

6 MR. KIMBALL: No. When the borrower
7 was approved, we used a generic name for all the
8 companies called the Loan Shop. Again, LTS. And
9 that was the generic name as we were known on the
10 Internet. Then when they got the deposit into their
11 bank account, it would say the Loan Shop/Richmond
12 Marketing and it would have the number of the bank,
13 if they had a question. That's a, part of the
14 Patriot Act.

15 UNIDENTIFIED MALE: But the
16 promissory note itself that the individual borrower -
17 -

18 MR. KIMBALL: Would say Richmond
19 Marketing. They would get that in the email that
20 next day. They would do an e-signature of a
21 promissory note and then we would sign that note that
22 night and they would get the version and it was kind
23 of a, they would get a package.

24 UNIDENTIFIED MALE: So you altered
25 the note after the borrower signed it.

1 MR. KIMBALL: No, we didn't alter the
2 note.

3 UNIDENTIFIED MALE: So when the
4 borrower e-signed it, it would have to be a completed
5 document would it not?

6 MR. KIMBALL: It was, well, I don't
7 know if I'm understanding.

8 UNIDENTIFIED MALE: We can take a
9 little recess.

10 EDWARD NAZAAR: Maybe he should
11 answer. There is a question on --

12 UNIDENTIFIED MALE: Well, I have a
13 question on the record and I would like to get his
14 best --

15 EDWARD NAZAAR: Then he should
16 probably answer then.

17 UNIDENTIFIED MALE: His best
18 understanding.

19 MR. PELOFSKY: Well, that's what I am
20 going to talk to him about.

21 UNIDENTIFIED MALE: Well, I think I
22 want his answer and then if he wants to correct the
23 record after you talk to him he can do that.

24 MR. KIMBALL: The timing of the e-
25 signature and the assignment, I don't know exactly

1 how that corresponded.

2 UNIDENTIFIED MALE: Have you ever
3 seen, well, okay - (inaudible - multiple people
4 speaking).

5 UNIDENTIFIED MALE: We can off the
6 record, Ed?

7 (Recording N-4936-002 ended)

8

9

10 (Start of recording M-4936-003)

11 MR. PELOFSKY: Got a little problem
12 here now.

13 MR. KIMBALL: All right.

14 MR. PELOFSKY: We have a plaintiff in
15 adversary complaint who is represented at this table
16 and has been asking questions and I think that is
17 suing Mr. Kimball personally.

18 UNIDENTIFIED MALE: There is an
19 abstract complaint on file for non-discharge of the
20 same debt.

21 MR. PELOFSKY: All right, then I am
22 going to object on behalf of Mr. Kimball as his
23 attorney as to any other questions that are asked by
24 the council.

25 UNIDENTIFIED MALE: This is a

1 separate proceeding, in a separate case in which Mr.
2 Kimball has been designated as the corporate
3 representative.

4 MR. PELOFSKY: Well, I understand
5 that, but I am not certain because of the, the breath
6 of this conversation seems to me is well beyond just
7 a 341 examination where council for a creditor is
8 limited to the amount of inquiry he can make.

9 UNIDENTIFIED MALE: What do you think
10 Mr. Pelofsky --

11 MR. PELOFSKY: And I am asking the
12 Trustee if Mr. Maloney continues to ask questions
13 that they be restricted to the LTS activity and not
14 anything else.

15 UNIDENTIFIED MALE: I don't think I
16 would object to that --

17 UNIDENTIFIED MALE: I think all of
18 the - Joel, I think that all of the questions that
19 have been asked have been related to the activities
20 of LTS.

21 MR. PELOFSKY: Well, I don't, I'm not
22 confident that I could say that with any certainty
23 since we have talked about the entire operation of
24 the entire business.

25 UNIDENTIFIED MALE: Which I think is

1 directly relevant to, the question, the line of
2 questioning that I have been asking him is to try and
3 determine who might be the proper party to enforce
4 the receivables that you have scheduled on Schedule B
5 as an asset of this bankruptcy estate. So if you
6 have an objection to an individual question that
7 somebody might ask, you can state your objection and
8 then you can advise your client however you wish to
9 advise him and if he declines the answer, then we can
10 ask the court to enforce --

11 MR. PELOFSKY: It becomes extremely
12 awkward since I am here only as his personal
13 attorney.

14 UNIDENTIFIED MALE: I understand.

15 MR. PELOFSKY: all right.

16 UNIDENTIFIED MALE: So, can I
17 continue my --

18 UNIDENTIFIED MALE: Yeah.

19 UNIDENTIFIED MALE: So the question I
20 had asked you before we took the break was, trying to
21 determine as I have just indicated, who is the proper
22 party on the note, and whether the notes were, I
23 guess, properly signed. So my question was, when the
24 borrower who got an individual loan that was marketed
25 by LTS saw the promissory note and was asked to sign

1 a promissory note, how is it determined who the
2 creditor on that promissory note was?

3 MR. KIMBALL: It was not marketed by
4 LTS.

5 UNIDENTIFIED MALE: Okay. Well, who
6 marketed --

7 MR. KIMBALL: Edata Solutions
8 provided all of our applications.

9 UNIDENTIFIED MALE: Okay, well
10 somebody would send them a promissory note to sign is
11 that correct?

12 MR. KIMBALL: Yes.

13 UNIDENTIFIED MALE: Where they sign a
14 promissory, were they sent a promissory note to sign
15 prior to or after LTS or one of the affiliated
16 companies sent them money?

17 MR. KIMBALL: They were sent a
18 promissory note before they got the money. They were
19 fully aware that the note was for LT, from the Loan
20 Shop or affiliated entity, we had to have this
21 completely vented by the bank and we were audited
22 every single quarter by the FDIC on our procedures of
23 how we made our loans. So the customer is fully
24 aware that when they took a loan out and they signed
25 the promissory note that the Loan Shop or one of its

1 affiliated entities would be giving them the loan.
2 Having them sign those signs was arbitrary like I
3 told you based upon cash flow and various factors.

4 UNIDENTIFIED MALE: That assignment
5 occurred after the loan was made or before the loan
6 was made?

7 MR. KIMBALL: Before the loan was
8 made.

9 UNIDENTIFIED MALE: Was it, was that
10 assignment before or after the customer executed the
11 promissory note?

12 MR. KIMBALL: The assignment, the
13 customer is made aware during the conversation
14 because the part of the process of making the loan
15 was a phone call to the customer that the loan would
16 be from one of the affiliated entities of the Loan
17 Shop.

18 UNIDENTIFIED MALE: But you have an
19 enforceable promissory note?

20 MR. KIMBALL: Yes.

21 UNIDENTIFIED MALE: And when the
22 customer executed that promissory note, who was
23 designated as the creditor?

24 MR. KIMBALL: It was designated that
25 day, before they got the money.

1 UNIDENTIFIED MALE: When the, that's
2 not, I don't think that's responsive to the question
3 I am asking you. So the borrower would see --

4 MR. KIMBALL: Well, that's the answer
5 to the question.

6 UNIDENTIFIED MALE: Well, the
7 borrower would see a promissory note that they would
8 have to execute, correct? If it's electronically,
9 well let me ask this question. These were all
10 electronically executed, correct?

11 MR. KIMBALL: Yes.

12 UNIDENTIFIED MALE: So the borrower
13 in order to execute the note, would have to see the
14 note, a copy of the note or be provided a copy of the
15 note at that time.

16 MR. KIMBALL: Right.

17 UNIDENTIFIED MALE: On the copy of
18 the note that the borrower was provided to execute,
19 who was designated as the creditor who was making the
20 loan?

21 MR. KIMBALL: The Loan Shop or an
22 assignee.

23 UNIDENTIFIED MALE: Okay. So was the
24 Loan Shop a DBA for entity?

25 MR. KIMBALL: The Loan Shop was a DBA

1 for all these entities.

2 UNIDENTIFIED MALE: Well, somebody
3 would have to legally be the creditor, so who was the
4 creditor at the time the promissory note was
5 executed, because the Loan Shop as I understand it
6 doesn't exist. There is no entity named the Loan
7 Shop, is that correct?

8 MR. KIMBALL: The Loan Shop was the
9 DBA and the affiliated entities, all the, they were
10 told at the time of the signing that the assignment
11 would be to an affiliated entity of the Loan Shop.

12 UNIDENTIFIED MALE: How were they
13 told?

14 MR. KIMBALL: Over the phone.

15 UNIDENTIFIED MALE: By whom?

16 MR. KIMBALL: One of our call center
17 agents.

18 UNIDENTIFIED MALE: So before any
19 promissory notes were executed, a hundred percent of
20 the clients received --

21 MR. KIMBALL: One hundred percent.

22 UNIDENTIFIED MALE: And they were
23 told that somebody affiliated with the Loan Shop
24 would be --

25 MR. KIMBALL: Yes. This is a process

1 that we had to get approved by all the banking
2 entities to make sure that we weren't breaking any
3 banking rules.

4 UNIDENTIFIED MALE: But the entity
5 itself was not designated on the promissory note that
6 was actually signed by the --

7 MR. KIMBALL: Yes it was. That,
8 later that, the same day.

9 UNIDENTIFIED MALE: So by the time
10 the customer executed it, that promissory note had
11 already been allocated.

12 MR. KIMBALL: That time during the
13 day, yes sometime during that day.

14 UNIDENTIFIED MALE: So by the time
15 the borrower went in and said, I accept this
16 promissory note, that line was filled out with the
17 name of the send --

18 MR. KIMBALL: I don't know exact, the
19 exact timing of when that happened, but they were
20 done with, there was a signee of the Loan Shop.

21 UNIDENTIFIED MALE: Where are all the
22 records that would have all of these notes?

23 MR. KIMBALL: Those records don't
24 exist.

25 UNIDENTIFIED MALE: Where were they

1 housed?

2 MR. KIMBALL: They were housed on our
3 server.

4 UNIDENTIFIED MALE: Where was that
5 server located at the time the notes were executed?

6 MR. KIMBALL: Well, the last place
7 was 908 Baltimore.

8 UNIDENTIFIED MALE: What happened to
9 that server?

10 MR. KIMBALL: That server, I don't
11 know where it is.

12 UNIDENTIFIED MALE: So you --

13 MR. KIMBALL: We had a data policy
14 rule of two years of data retention. So every two
15 months, two years went by, the data was deleted from
16 the system for privacy policy.

17 UNIDENTIFIED MALE: As I understand
18 it, at some point after 2013, LTS or somebody acted
19 on behalf of LTS sold some of these receivables, is
20 that correct?

21 MR. KIMBALL: LTS didn't sell any
22 receivables.

23 UNIDENTIFIED MALE: Well, somebody
24 sold the receivables.

25 MR. KIMBALL: Yes, but they weren't

1 receivables of LTS.

2 UNIDENTIFIED MALE: Right, I
3 understand. So, but what I said is somebody sold
4 those receivables, correct?

5 MR. KIMBALL: Yes.

6 UNIDENTIFIED MALE: Was a hundred
7 percent of the receivables left sold?

8 MR. KIMBALL: No.

9 UNIDENTIFIED MALE: How was it
10 determined what receivables were sold?

11 MR. KIMBALL: I don't know.

12 UNIDENTIFIED MALE: Who sold the
13 receivables?

14 MR. KIMBALL: My operations manager
15 went and looked at the file of written off loans and
16 the, how he determined what he put in that file, I
17 have no idea.

18 UNIDENTIFIED MALE: There was one bulk
19 sale was that correct?

20 MR. KIMBALL: Yes.

21 UNIDENTIFIED MALE: Who was the
22 purchaser of the bulk sale?

23 MR. KIMBALL: I believe it's called
24 the UVH.

25 UNIDENTIFIED MALE: Do you know when

1 that bulk sale occurred?

2 MR. KIMBALL: I believe in January or
3 February 2014.

4 UNIDENTIFIED MALE: And do you recall
5 what the purchase price of the portfolio was?

6 MR. KIMBALL: As I said yesterday, I
7 think it was between eight hundred and nine hundred
8 thousand dollars.

9 UNIDENTIFIED MALE: And where did that
10 eight hundred or nine hundred thousand dollars go?

11 MR. KIMBALL: I don't know. That's
12 what I've been looking. I can't seem to find it on
13 any of the bank accounts.

14 UNIDENTIFIED MALE: So you don't know
15 where that eight hundred or nine hundred thousand
16 dollars was deposited?

17 MR. KIMBALL: I said I don't know
18 where it went. I'm looking for it.

19 UNIDENTIFIED MALE: Who facilitated
20 that sale? Who were the individuals who were
21 involved in the sale?

22 MR. KIMBALL: This gentleman from the
23 collection agency called me and asked me if I had any
24 thing I wanted to sell. At that point, we were in a
25 panic mode and didn't know if we were going to be

1 able to make it. It was a day-by-day process. As I
2 think I said yesterday, I can't remember, I think we
3 got somewhere around a penny or less than a penny on
4 the dollar, the typical rate prior to operation
5 Chokepoint was nine to fifteen cents on the dollar of
6 written off receivable.

7 UNIDENTIFIED MALE: And so you were
8 the individual who was representing the seller in
9 that transaction?

10 MR. KIMBALL: I talked to the
11 collection agency, and then I referred him to John
12 Kimball, my operations manager. I have no accument
13 or ability to gather that data out of our data base
14 and he made the determination after talking with this
15 individual what would be acceptable to, that they
16 would be interested in purchasing. There was a lot
17 of things that they would not be interested in
18 purchasing.

19 UNIDENTIFIED MALE: And do you recall
20 the name of the individual who you were negotiating -
21 -

22 MR. KIMBALL: Tyler Johnson (ph).
23 Tyler Johnson.

24 UNIDENTIFIED MALE: Tyra Johnson.

25 MR. KIMBALL: Tyler.

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1 UNIDENTIFIED MALE: Tyler Johnson, I'm
2 sorry.

3 UNIDENTIFIED MALE: With UVH?

4 MR. KIMBALL: Yeah. I will have to
5 double check the name, its been a while. That and
6 since I can't bring my cell phone in, I can't
7 (laughing) go back and look.

8 UNIDENTIFIED MALE: And had you done
9 business with Mr. Johnson before?

10 MR. KIMBALL: No.

11 UNIDENTIFIED MALE: And where is UVH
12 located?

13 MR. KIMBALL: As far as I was led to
14 believe, they were in Colorado but since then I have
15 also been led to believe that they might have been in
16 Buffalo, New York, which for some reason is the
17 epicenter of collection activity.

18 UNIDENTIFIED MALE: You value, and
19 one of the reasons I am asking all these questions is
20 because in the Schedule B that was filed for LTS,
21 there was an assertion made that LTS is the owner of
22 receivables totalling a little over three million
23 dollars. So how is that number derived?

24 MR. KIMBALL: I don't know.

25 UNIDENTIFIED MALE: Well, you said you

1 were familiar with these Schedules and I'm on Line 16
2 of Schedule B, there was an assertion made that LTS
3 is the owner of receivables totalling three million,
4 eighty thousand, six hundred and two dollars and
5 seventy-four cents.

6 MR. KIMBALL: It's probably from the
7 accounts payable and receivable between intercompany
8 transfers that was given to Mr. Pelofsky.

9 UNIDENTIFIED MALE: So those are
10 receivables not from consumers, but receivables from
11 other affiliated businesses?

12 MR. KIMBALL: Exactly.

13 UNIDENTIFIED MALE: But LTS owned on
14 the date that the bankruptcy was filed, whether or
15 not they are collectable, some portfolio of ones that
16 has never been collected.

17 MR. KIMBALL: I don't believe so.

18 UNIDENTIFIED MALE: So you believe all
19 the outstanding obligations of LTS are sold, I'm
20 sorry --

21 MR. KIMBALL: You mean the customer -
22 -

23 UNIDENTIFIED MALE: All the --

24 MR. KIMBALL: Loans --

25 UNIDENTIFIED MALE: All the customer

1 loans have been sold.

2 MR. KIMBALL: They were not sold
3 because those were not LTS loans.

4 UNIDENTIFIED MALE: Well you believe
5 that, did all of the entities sell, did the entities
6 own any of the loans still?

7 MR. KIMBALL: Those are the entities
8 loans. They were not LTS's loans.

9 UNIDENTIFIED MALE: Well, what I'm
10 asking is on, in August of 2015 when this involuntary
11 was filed, did any of those entities (inaudible)
12 loans that were still outstanding in collateral,
13 outstanding.

14 MR. KIMBALL: Of the entities listed
15 here?

16 UNIDENTIFIED MALE: Yeah.

17 MR. KIMBALL: Yes. There was, but I
18 don't know what the amount was or --

19 UNIDENTIFIED MALE: And your assertion
20 as I understand it, is there are no records of what
21 those loans are anymore?

22 MR. KIMBALL: No probably not anymore
23 because of the date of retention.

24 UNIDENTIFIED MALE: Did somebody
25 destroy the data after the --

1 MR. KIMBALL: Destroy is the improper
2 word. We have a policy, an internal policy, to
3 remove data from the database after two years because
4 of policy of the, we had internal policies to protect
5 the consumer data so we would remove that data after
6 a certain amount of time.

7 UNIDENTIFIED MALE: Even after LTS
8 stopped operating, did somebody go through and remove
9 the data or did you exercise that policy --

10 MR. KIMBALL: I think the system was
11 programmed to do it, to do it automatically, but I
12 would have to double check. But LTS Management did
13 not have loans.

14 UNIDENTIFIED MALE: And you don't
15 know where the server where that, that housed all
16 that information was? I understand that LTS did not
17 loans.

18 MR. KIMBALL: The LTS server, I do
19 not know where it is but I can find out.

20 UNIDENTIFIED MALE: Well, I think Mr.
21 Nazaar would want to know that information.

22 UNIDENTIFIED MALE: Wasn't there
23 testimony yesterday that there was a server that was
24 transferred to the Indian Reservation in California.

25 MR. KIMBALL: It was not transferred.

1 It was purchased brand new and given to the Indian
2 Tribe.

3 UNIDENTIFIED MALE: And this is a
4 different server than what we are talking about here?

5 MR. KIMBALL: Yes.

6 UNIDENTIFIED MALE: The last time that
7 you saw the server, where was it?

8 MR. KIMBALL: I don't think I ever
9 saw the server.

10 UNIDENTIFIED MALE: But you understood
11 it was at 908 Baltimore?

12 MR. KIMBALL: Yes. We have quite a
13 sophisticated computer room but I didn't go in there
14 very often.

15 UNIDENTIFIED MALE: What happened to
16 all the equipment that was in 908 Baltimore?

17 MR. KIMBALL: It's sitting in 908
18 Baltimore or in Midland Medals warehouse.

19 UNIDENTIFIED MALE: So it's possible
20 the server is sitting in the warehouse?

21 MR. KIMBALL: It's possible.

22 UNIDENTIFIED MALE: And Midland
23 Medals is Mr. Hodes's company?

24 MR. KIMBALL: Yes.

25 UNIDENTIFIED MALE: Is that correct?

1 MR. KIMBALL: He is a personal
2 friend.

3 UNIDENTIFIED MALE: First name is?

4 MR. KIMBALL: Vince.

5 UNIDENTIFIED MALE: Vince. So what
6 you're suggesting to us is that there is no records
7 that are available to attempt to collect the three
8 million, eighty thousand dollars in receivables, is
9 that --

10 MR. KIMBALL: Those receivables were
11 not customer loans.

12 UNIDENTIFIED MALE: I understand.
13 They were from interco - they were from --

14 MR. KIMBALL: Yeah, there's all
15 kinds, there are line item receivables that I give to
16 Ms. Stanton on each one of those items. Now I don't
17 know which line --

18 MR. PELOFSKY: Yeah, let's go off the
19 record for a minute if we can.

20 (Recording N-49361-003 ended)

21

22

23 (Recording N-49361-004 starting)

24 EDWARD NAZAAR: Okay, we are back on
25 the record.

1 MR. PELOFSKY: As Mr. Kimball's
2 personal attorney, it is my recollection that there
3 is a document that shows LTS receivables that were
4 not part of the consumer lending business and that
5 were not erased under any privacy program and I will
6 furnish that to the trustee.

7 EDWARD NAZAAR: Thank you. Are there
8 source documents that would assist in substantiating
9 this because I think what you're going to give me is
10 a compilation and not the documentation per se.

11 MR. PELOFSKY: I think that is a
12 correct characterization and I'm not aware of the
13 supporting documents.

14 EDWARD NAZAAR: So if I get some push
15 back from someone in collecting a receivable, I don't
16 have any source documents to support the debt?

17 MR. PELOFSKY: Well, I didn't say
18 that. What I said was, I don't know if there are
19 supporting documents, but if there are, of course, we
20 will provide them.

21 EDWARD NAZAAR: I'm noting it's about
22 twelve noon now and Mr. Pelofsky has a meter issue to
23 be concerned about. What's every sense, keep moving,
24 take a five minute break? Break for lunch? I'm
25 amenable to -

1 UNIDENTIFIED MALE: He answered all
2 of, I think my questions. I don't know how many you
3 have.

4 EDWARD NAZAAR: I want to go through
5 the schedules some and with that.

6 UNIDENTIFIED MALE: I'm good with
7 whatever.

8 EDWARD NAZAAR: Okay.

9 UNIDENTIFIED MALE: I will run down
10 and take care of the parking meter thing, so I don't
11 know if anybody else needs to do that.

12 MR. KIMBALL: Is it going to be three
13 hours or is it going to be thirty minutes or one
14 hour, that would determine whether we should go to
15 lunch in my opinion.

16 EDWARD NAZAAR: one hour? What do
17 you think? One hour or more?

18 UNIDENTIFIED MALE: I would think so.
19 I don't think it would be three hours.

20 EDWARD NAZAAR: We can take a break.
21 Do you want to take a break?

22 MR. KIMBALL: Well, we need to feed
23 the parking meter, but if it's going to be one hour,
24 I can wait for lunch. I'd rather do that and just
25 kind of.

1 EDWARD NAZAAR: And then leave.

2 MR. KIMBALL: Yeah. You drive back
3 to Wichita and we can get on with our day but if its
4 going to be three hours, I would like to eat
5 something.

6 UNIDENTIFIED MALE: I don't think
7 it's going to be three hours.

8 MR. PELOFSKY: How many quarters you
9 got?

10 MR. KIMBALL: My wife gave me two
11 dollars in quarters.

12 MR. PELOFSKY: You got a coat.

13 MULTIPLE SPEAKERS: (Inaudible).

14 UNIDENTIFIED FEMALE: Is somebody
15 going to be in the room?

16 UNIDENTIFIED MALE: I'm staying here.

17 MR. KIMBALL: It'll take me about ten
18 minutes. Are you driving back to Wichita today?

19 EDWARD NAZAAR: No, I have to be in
20 Lawrence tomorrow so I'm staying.

21 MR. KIMBALL: Are you going to the
22 basketball game?

23 EDWARD NAZAAR: No, no. I wish I
24 could say I was going to the basketball game. I'm
25 going to, there's a dinner, a bar dinner that I have

1 to go to.

2 MR. KIMBALL: Oh. I'll be right
3 back.

4 MR. PELOFSKY: Did I give you my
5 card.

6 UNIDENTIFIED MALE: Thank you.

7 MR. PELOFSKY: This is going to be a
8 lawyer's paradise.

9 EDWARD NAZAAR: Yeah, but I'm a
10 little worried that its not going to be a trustee's
11 paradise in the sense that it's the worse kind of
12 (inaudible) work.

13 MR. PELOFSKY: Yeah. Well, yeah. I
14 don't know exactly where LTS fits into this, but I
15 think, my recollection was is that there is some
16 money in the receivables. The real question is
17 whether the people who owe it can pay it.

18 EDWARD NAZAAR: Joe, I signed up for
19 the app, the park mobile app that allows you to.

20 MR. PELOFSKY: Oh that Bruce was
21 talking about yesterday.

22 UNIDENTIFIED FEMALE: Yeah, the only
23 glitch with that is if you're not driving your own
24 car, you can't use it.

25 UNIDENTIFIED MALE: You can add one.

1 UNIDENTIFIED FEMALE: You can put in
2 another, yeah but if its random. Somebody random
3 that drives you, like my situation today. I didn't
4 know I could put in her license plate.

5 UNIDENTIFIED MALE: It's pretty easy.
6 Like I had my wife's van last week when I was here,
7 just did it.

8 UNIDENTIFIED FEMALE: You know the
9 five dollar lot or whatever, but yesterday, I was
10 like trying to find a place with the Nationalized
11 Citizen thing going on, so many people here.

12 UNIDENTIFIED MALE: Oh yeah. I used
13 to park at the really shady two dollar a day.

14 UNIDENTIFIED FEMALE: I don't know
15 where that is. Probably too far to walk.

16 UNIDENTIFIED MALE: Yeah, and it's
17 like getting worse. There's, I don't know if anyone
18 is even picking up the money that you put in the slot
19 anymore. There's a fence around it and so I just
20 stopped doing it.

21 UNIDENTIFIED FEMALE: Well, I love
22 the app but the last time I tried to use it, it
23 wasn't working and so iu thought well maybe there is
24 something wrong but Bruce said that day, the other
25 day it wasn't working, but then I realized I didn't

1 have anybody else's license plate in there, so I
2 mean. It is easy.

3 EDWARD NAZAAR: I'm just fascinated,
4 I'm from the country, about this app.

5 UNIDENTIFIED FEMALE: How many cities
6 do you think have the park, I wonder. I guess you
7 just pull up to a meter and see if there is a number
8 on it.

9 UNIDENTIFIED MALE: Yeah.

10 EDWARD NAZAAR: Now Susan you need
11 like those scenes in the movies in the 30s and the
12 40s with the woman who is holding her hand like this
13 and has a cigarette in the --

14 UNIDENTIFIED FEMALE: Oh I need to
15 see that.

16 EDWARD NAZAAR: Yeah, it's just kind
17 of --

18 UNIDENTIFIED FEMALE: The reason I'm
19 holding it up, she asked me, is because they say keep
20 it above your heart because the blood won't be, you
21 know then your fingers wont swell and it heals
22 better. That's why. I didn't want to draw attention
23 to myself.

24 EDWARD NAZAAR: But it would just be
25 just so much more dramatic, you know.

1 UNIDENTIFIED FEMALE: It would be.

2 MR. PELOFSKY: You need a holder too.

3 UNIDENTIFIED FEMALE: I have one of
4 those from a customer too. I will probably will be
5 going to (inaudible - multiple people talking).

6 EDWARD NAZAAR: What I am probably
7 going to do Joe is continue this, but I'm not going
8 to separately set something independent of Janice.
9 So if Janice has a continued hearing, I will probably
10 ducktail on it so it won't be inconvenient to Mr.
11 Kimball.

12 UNIDENTIFIED FEMALE: I know Bruce
13 said he wanted, he is going to do the same thing on
14 his. So we should all coordinate schedules to see
15 when we want to do this. As he was, as I was hanging
16 up the phone with him, he said do you want to do it
17 before Joe leaves town and I said, I will let you
18 know, but my thought is probably not.

19 MR. PELOFSKY: Good.

20 UNIDENTIFIED FEMALE: Because we
21 won't have any really --

22 MR. PELOFSKY: He will have something
23 but I'm not sure, I'm going to try to get you
24 something Monday but I don't know.

25 UNIDENTIFIED FEMALE: So Bruce

1 indicated that his was going to be continued. I
2 didn't hear the end.

3 UNIDENTIFIED FEMALE: He said,
4 adjourned but --

5 UNIDENTIFIED FEMALE: Yeah, and I
6 thought, oh he concluded.

7 UNIDENTIFIED FEMALE: No, he didn't.

8 UNIDENTIFIED FEMALE: They didn't
9 have everything he wanted so I was surprised. Okay.
10 Are you all, is that what I'm hearing that all three
11 of you are going to try to coordinate the same day?

12 UNIDENTIFIED FEMALE: Yeah.

13 EDWARD NAZAAR: Yeah.

14 UNIDENTIFIED FEMALE: Janice, is your
15 hearing for Tuesday still on?

16 UNIDENTIFIED FEMALE: I think so.

17 UNIDENTIFIED FEMALE: Okay. I mean,
18 I didn't know whether it was still necessary.

19 UNIDENTIFIED FEMALE: I don't know.
20 I mean, its still on but I don't know if you need to
21 come back or not.

22 UNIDENTIFIED FEMALE: I had it on the
23 calendar.

24 MR. PELOFSKY: What's that on?

25 UNIDENTIFIED FEMALE: The hearing on

1 Tuesday.

2 MR. PELOFSKY: What do you want to do
3 about that?

4 UNIDENTIFIED FEMALE: Pertain to the
5 --

6 UNIDENTIFIED FEMALE: I think you're
7 going to ask the court for time to amended Schedules.

8 UNIDENTIFIED MALE: Oh yeah, I was in
9 his son's class, yeah. Who's in house with
10 Merckland, right?

11 UNIDENTIFIED MALE: Correct.

12 MR. PELOFSKY: Well, I think it's
13 more than amended schedules. I think we can some
14 schedules filed, at least in Kimball's case and then
15 it's just going to be doing all the scut work.

16 UNIDENTIFIED FEMALE: All this what
17 work?

18 MR. PELOFSKY: Scut work.

19 UNIDENTIFIED FEMALE: What's that
20 mean?

21 MR. PELOFSKY: I think it's an old
22 naval term that has to do with cleaning out the
23 edges.

24 (Inaudible - multiple people talking)

25 MR. PELOFSKY: It's a very

1 interesting relationship between the Dow and the SMP,
2 its very peculiar number. But, well I just think
3 it's just children in paly really.

4 UNIDENTIFIED MALE: Yep.

5 MR. PELOFSKY: The price of oil has
6 been down for a very long time and now they are
7 worried about China. They have no idea what they are
8 worried about because China doesn't tell you
9 anything.

10 UNIDENTIFIED MALE: Yeah, crude is at
11 twenty-nine barrel.

12 MR. PELOFSKY: One of these days, the
13 Saudi's are going to have to quit selling.

14 UNIDENTIFIED FEMALE: Has it warmed
15 up any out there?

16 MR. KIMBALL: It's really cold.

17 UNIDENTIFIED FEMALE: Really windy?

18 MR. KIMBALL: Really windy and really
19 cold. I think tomorrow is supposed to be like ten
20 degrees.

21 UNIDENTIFIED FEMALE: It was nice
22 yesterday, sixty degrees.

23 MR. PELOFSKY: It was golfing weather
24 yesterday.

25 MR. KIMBALL: What I don't

1 understand, I'm sure they have proceedings in this
2 building lot every day, why don't they have a parking
3 lot that you can park it.

4 UNIDENTIFIED FEMALE: They did not
5 plan well, poor parking.

6 UNIDENTIFIED MALE: Breakthrough at
7 twenty-nine dollars and twenty-three cents.

8 MR. PELOFSKY: Well, the real problem
9 --

10 (Inaudible - multiple speakers).

11 UNIDENTIFIED MALE: I have had a
12 bunch of drilling companies a few years ago and
13 Kansas drilling were sixty bucks.

14 UNIDENTIFIED MALE: Right, as the
15 breaking --

16 UNIDENTIFIED MALE: As the breaking.

17 MR. KIMBALL: You got in the oil
18 business.

19 UNIDENTIFIED MALE: I was
20 representing as a debtor and actually I was a
21 receiver also for a couple of drilling companies so
22 breakeven in Kansas is about sixty bucks a barrel and
23 today its twenty-nine -- the range is twenty-nine
24 forty-three so Texas is twenty-five bucks.

25 MR. KIMBALL: My father, besides

1 being a banking attorney was oil and gas (inaudible)
2 an attorney, and so we've lived by the price of, the
3 barrel of oil my whole life, so I'm very familiar
4 with that, but there is a lot of people I know which
5 done in the petro business.

6 UNIDENTIFIED MALE: Yeah.

7 MR. KIMBALL: Saudi Arabia -

8 (Inaudible - multiple people talking)

9 UNIDENTIFIED MALE: Okay.

10 MR. KIMBALL: Yeah Wichita is a big
11 oil town. Did you ever know a guy name Floyd Wilson
12 (ph).

13 UNIDENTIFIED MALE: I do know Floyd
14 Wilson.

15 MR. KIMBALL: I'm really good friends
16 with his son.

17 UNIDENTIFIED MALE: I don't know his
18 son, I knew Floyd.

19 MR. KIMBALL: Andrew.

20 UNIDENTIFIED MALE: Andrew, he --

21 MR. KIMBALL: Floyd, I've been
22 following Floyd from --

23 UNIDENTIFIED MALE: Your thinking of
24 Petrohawk (ph) and now Halcone (ph).

25 MR. KIMBALL: Halcon (ph).

1 UNIDENTIFIED MALE: Okay.

2 MR. KIMBALL: Yeah that's a thirty-
3 four cents now, but when he hit the, what was the
4 first field he hit that he got really rich, that was
5 the first company, I can't remember, but I always.

6 UNIDENTIFIED MALE: It was Reach (ph).

7 MR. KIMBALL: He sold it, he sold it
8 to Chesapeake and I can't remember what the --

9 UNIDENTIFIED MALE: Not Petrohawk,
10 no.

11 MR. KIMBALL: Petrohawk was the one
12 he sold to BTE (ph), Billaton and Australia for
13 thirteen billion dollars.

14 UNIDENTIFIED MALE: Yeah.

15 MR. KIMBALL: I'll remember it, I'm
16 actually pretty, even Floyd is, you know, a father of
17 mine friends, we were, we became buddies. But he
18 lives in Austin now.

19 UNIDENTIFIED MALE: Houston actually.

20 MR. KIMBALL: He commutes between
21 Austin and Houston.

22 UNIDENTIFIED MALE: I actually looked
23 at Halcon today.

24 MR. KIMBALL: I bought it at nine
25 dollars, it's at thirty-four cents. There

1 overleverage and there, I think they have three
2 billion dollars in debt and they can't get anybody to
3 refinance their debt and it's coming due, but he'll
4 be okay. He's probably got about five hundred at
5 least.

6 UNIDENTIFIED MALE: I actually
7 looked, they did that reverse five for one stock
8 split in December.

9 MR. KIMBALL: Did they.

10 UNIDENTIFIED MALE: And right so,
11 your share now is I don't a reverse five for one is
12 trading at fifty-one cents. So the effective rate is
13 eleven cents.

14 MR. KIMBALL: Oh, it's gone up from
15 up from thirty-four cents. I bought it at nine, and
16 I told all my friends to buy it because the last four
17 publically trade companies I doubled my money on just
18 because he is such a successful driller and for the
19 (inaudible) anyway let's go ahead --

20 MR. PELOFSKY: Nine cents or nine
21 dollars?

22 MR. KIMBALL: Nine dollars.

23 MR. PELOFSKY: That's at Halcon.

24 MR. KIMBALL: Halcon, yeah.

25 EDWARD NAZAAR: Let's go on so we can

1 conclude this for today.

2 UNIDENTIFIED MALE: You back on?

3 EDWARD NAZAAR: Yes, back on. Who is
4 in procession of 908 Baltimore right now?

5 MR. KIMBALL: CoreFirst Bank and
6 Trust.

7 EDWARD NAZAAR: CoreFirst.

8 MR. KIMBALL: They foreclosed on the
9 loan.

10 EDWARD NAZAAR: And so to the extent
11 that there is any property of LTS Management, I
12 should be contacting CoreFirst.

13 MR. KIMBALL: We left some stuff, we
14 just couldn't get out of there fast enough.

15 EDWARD NAZAAR: For instance, the
16 server room and all that.

17 MR. KIMBALL: I don't know, quite
18 honestly. It was, they gave us like a week and we
19 got out what we could.

20 MR. PELOFSKY: There is the furniture
21 at the Metal's place.

22 EDWARD NAZAAR: Right. That Hodes,
23 Vince Hodes has. And I think that this Stan (ph)
24 just told me about that. And is there a sale?

25 UNIDENTIFIED FEMALE: No, we hired

1 Robert Mayo, so he just like in the last day or two
2 gave us a potential dates that we could work towards,
3 so I will leave that up to you.

4 EDWARD NAZAAR: In question number
5 19, I'll read it for you and then the answer.
6 Question 19 of the Statement of Affairs. The
7 question is, list all firms or individuals who within
8 the last two years immediately preceding the filing
9 of this bankruptcy case have audited the books of
10 accounts and records or prepared a financial
11 statement of the debtor. And the answer given was
12 yourself at 5100 High Drive and John Mullen at 8900
13 Ward Parkway is, is that a correct answer relative to
14 the fact of audited?

15 MR. KIMBALL: We didn't have audits
16 of the financial statements. But Russ Coka also
17 should be added to that because he prepared all the
18 taxes.

19 EDWARD NAZAAR: So do you personally
20 have any records of LTS management?

21 MR. KIMBALL: Me personally?

22 EDWARD NAZAAR: Correct.

23 MR. KIMBALL: They are on my
24 computer.

25 EDWARD NAZAAR: Okay.

1 MR. KIMBALL: But at my house, I do
2 not.

3 EDWARD NAZAAR: So they are on your
4 business computer at Gregory.

5 MR. KIMBALL: At Gregory.

6 EDWARD NAZAAR: And so it would be
7 possible then to get a mirrored image of those
8 records.

9 MR. KIMBALL: Sure, I gave Ms.
10 Stanton the file of the LTS records but I, you're
11 more than happy to come over and I can get whatever
12 you want.

13 EDWARD NAZAAR: And then does Mr.
14 Mullen also have those same business records?

15 MR. KIMBALL: He has been our, for a
16 lack of a better term, corporate attorney since 2005,
17 so he would've seen any kind of records.

18 EDWARD NAZAAR: And my sense of it,
19 Mr. Mullen is really an insurance defense lawyer,
20 isn't he more than anything?

21 MR. KIMBALL: He is a litigator but
22 really what he did for us was when a debtor couldn't
23 be, for example, I hate to use Brendon again, but
24 Brendon borrows two hundred dollars and hires Mr.
25 Maloney to sue Richmond because Mr. Mullen would

1 negotiate a settlement for three hundred dollars and
2 the did those all the time. Most of them we could do
3 internally but if they hired an attorney, we would
4 want an attorney to talk to an attorney, does that
5 make sense.

6 UNIDENTIFIED MALE: That was claims
7 that a borrower would make against one of these
8 companies or that it was a collection action you were
9 trying to recover. And you still wanted to pay the
10 loan, so they would go look up some statute in their
11 state or something and say, you know ninety-nine
12 percent of the time we would just write the loan off,
13 but if they hired an attorney, then Mr. Mullen would
14 contact an attorney and say okay, we will offer
15 Brendon his two hundred dollars back or the two
16 hundred, oh wipe it off and I would say, well I get
17 two hundred dollars for my hour work that I did.

18 UNIDENTIFIED MALE: This is where the
19 consumer or the bar would claim some violation of
20 like the fair debt collection practices Act or
21 something.

22 MR. KIMBALL: You name it, act of
23 God, they came up with all kinds of things. You can
24 only imagine.

25 UNIDENTIFIED MALE: Sorry to

1 (inaudible).

2 EDWARD NAZAAR: No, no, you're fine.
3 Question number 23, if the debtor is a partnership or
4 corporation, list all withdrawals or distributions,
5 credited or given to an insider. An insider, I would
6 presume would be you or Mr. Furseth. Including
7 compensation and any foreign bonuses, loans, stocks,
8 renditions, options or within one year preceding the
9 case. Is that correct? There been any distributions
10 to you or Mr. Furseth?

11 MR. KIMBALL: LTS Management.

12 EDWARD NAZAAR: LTS Management.

13 MR. KIMBALL: Not to my knowledge but
14 I will have to double check.

15 EDWARD NAZAAR: Okay. And if there
16 was a distribution, where would those distributions,
17 which account would they have come from?

18 MR. KIMBALL: Well, we have one LTS
19 account at Five Star.

20 EDWARD NAZAAR: And where is Five
21 Star? Is that here in Kansas City?

22 MR. KIMBALL: It's in Colorado
23 Springs, Colorado.

24 EDWARD NAZAAR: And why utilization
25 of a bank in Colorado Springs?

1 MR. KIMBALL: Because that is the
2 only bank that would take us, and I know the owner of
3 the bank.

4 EDWARD NAZAAR: Okay.

5 MR. KIMBALL: That's how desperate it
6 was to get a bank account.

7 EDWARD NAZAAR: Now, I noticed in
8 this bank account on January 31, 2015, so within a
9 year of the filing of the bankruptcy, there was a
10 distribution of seventy thousand dollars to Agile
11 Fish. What could that be for?

12 MR. KIMBALL: I don't know. Like I
13 said, I was going to check and see. There would be
14 an invoice associated with that.

15 EDWARD NAZAAR: Okay. And there were
16 various payments to Aetna. Was that something --

17 MR. KIMBALL: That's insurance.

18 EDWARD NAZAAR: Life insurance or --

19 MR. KIMBALL: Life insurance, health
20 insurance.

21 EDWARD NAZAAR: Insurance, and health
22 insurance for you and Mr. Furseth or other
23 individuals?

24 MR. KIMBALL: I'd have to check.

25 EDWARD NAZAAR: Now there also

1 appears to be transfers into this bank account at
2 Five Star Bank from Chanook Services, Up Front
3 Processing and from Agile Fish. What were those
4 credits into the account?

5 MR. KIMBALL: Those are the invoices
6 that I would have to, like I said yesterday, I'd have
7 to go look up or something that was, some service
8 that was done but there should be an invoice
9 associated with that.

10 EDWARD NAZAAR: And what typically,
11 for instance, would Agile Fish be invoiced for?

12 MR. KIMBALL: Um, if, in previous
13 years LTS Management would bill the Russian entity
14 directly for software support.

15 EDWARD NAZAAR: Um-hum.

16 MR. KIMBALL: And since all the LTS
17 Management didn't have any software support employees
18 anymore and Agile Fish took over that role, that
19 would be one reason that I could think of that any
20 kind of transfer or money for support at some point
21 that was a -- I believe we have a contract between
22 with Russian and with LTS. I don't know if there is
23 one for Agile Fish for monthly software support
24 because until I'd have to say the last six months,
25 they were one hundred percent dependent on a version,

1 a modified version of our software, that we did and
2 they created the, I shouldn't say they, the company
3 created its own proprietary software, but it still
4 runs a portion of the process of making a loan in
5 Russia still uses some portion of the modified
6 version of the software.

7 EDWARD NAZAAR: Which company were
8 you referring to modifying the software, Agile.

9 MR. KIMBALL: No Agile Fish is just
10 maintaining the relationship. The company that
11 modified the software to begin with was LTS
12 Management and then with the employees it became
13 Glacier Management and it was Glacier Management.

14 EDWARD NAZAAR: And then became Agile
15 Fish.

16 MR. KIMBALL: Agile Fish, as far as I
17 understand, I don't know who works for Agile Fish
18 exactly. I understand it is contracted IT people
19 that used to work for Glacier.

20 EDWARD NAZAAR: But isn't, aren't
21 those the same people that are officing at the
22 Gregory address that you're at?

23 MR. KIMBALL: No.

24 EDWARD NAZAAR: The Agile Fish
25 employees at the address on Gregory --

1 MR. KIMBALL: As far as I know there
2 is four Agile Fish employees at Gregory, the rest of
3 them are North Kansas City. I don't know which way
4 is north, but.

5 EDWARD NAZAAR: The Agile Fish
6 employees at Gregory are marketing people? Or what
7 are they?

8 MR. KIMBALL: Support staff.

9 EDWARD NAZAAR: For software support
10 you mean or?

11 MR. KIMBALL: No.

12 EDWARD NAZAAR: Just --

13 MR. KIMBALL: I don't know.

14 EDWARD NAZAAR: Just back office?

15 MR. KIMBALL: My assumption is what I
16 see them doing a lot is collecting mail and
17 processing bill payments, but I don't know. They
18 don't work for me anymore.

19 EDWARD NAZAAR: Are you subletting
20 the space from Agile Fish that you are located at?

21 MR. KIMBALL: No.

22 EDWARD NAZAAR: You have your own
23 separate lease with the landlord there?

24 MR. KIMBALL: No, they just let me
25 stay there.

1 EDWARD NAZAAR: The Agile Fish people
2 let you stay there?

3 MR. KIMBALL: There are several
4 people besides myself that they let stay there.

5 EDWARD NAZAAR: And whom might, who
6 are the other people, if I might ask.

7 MR. KIMBALL: Brooks Pierce and Todd
8 Tobin (ph).

9 EDWARD NAZAAR: And Brooks Peterson?

10 MR. KIMBALL: Pierce.

11 EDWARD NAZAAR: Pierce, I'm sorry and
12 then the other individual?

13 MR. KIMBALL: Todd Tobin.

14 EDWARD NAZAAR: And were these former
15 employees of Glacier or LTS?

16 MR. KIMBALL: Bruce Pierce (ph) was
17 our internal council at LTS and Glacier.

18 EDWARD NAZAAR: Okay.

19 MR. KIMBALL: And Todd Tobin is a
20 real estate development and former aircraft carrier
21 fighter pilot.

22 EDWARD NAZAAR: So he was never
23 associated --

24 MR. KIMBALL: He was, I initially
25 hired him. I believe Ms. Stanton asked Mr. Furseth

1 why Mr. Tobin had been paid initially was hired him
2 to be a operating officer of Glacier before Operation
3 Chokepoint so his departure from the Navy wasn't so
4 pleasant because he thought he had this job.

5 EDWARD NAZAAR: All right. What is
6 Chanook Services (ph)?

7 MR. KIMBALL: It is a Native American
8 lending company.

9 EDWARD NAZAAR: And where is it
10 located?

11 MR. KIMBALL: In Utica, California.

12 EDWARD NAZAAR: And is it the entity
13 that you bought the server for?

14 MR. KIMBALL: No, the server is owned
15 by the Guidiville, G-U-I-D-I-V-I-L-L-E, Ranchia,
16 Ranch with an I-A, Tribe.

17 EDWARD NAZAAR: In the same general
18 location or?

19 MR. KIMBALL: They own Chanook.

20 EDWARD NAZAAR: And then what is
21 Upfront Processing?

22 MR. KIMBALL: It is another tribal
23 lending and also owned by the same Guidiville Ranchia
24 Tribe.

25 EDWARD NAZAAR: And are these tribes

1 related in any fashion to the tribe that owns EDS?

2 MR. KIMBALL: I'm sorry.

3 EDWARD NAZAAR: Are they Edata
4 Solutions, I'm sorry. Edata solutions.

5 MR. KIMBALL: That's the Wyandotte
6 tribe of Oklahoma. They are not related.

7 EDWARD NAZAAR: And --

8 MR. KIMBALL: As far as, I mean I
9 don't know, but I don't believe so. I've never had
10 any ownership of Edata.

11 EDWARD NAZAAR: How did either
12 Glacier Management Services or LTS come into contact
13 with the --

14 MR. KIMBALL: Guidiville.

15 EDWARD NAZAAR: Guidiville, thank
16 you, tribe.

17 MR. KIMBALL: The Guidiville tribe
18 has been in the lending business for about I think
19 almost seven or eight years and there is conferences
20 that are associated with the industry and they have
21 a, I assume, a booth and they solicit people to use
22 their tribe as a lending entity and a group of my
23 former executives met them at one of those
24 conferences and after they quit, they formed a
25 relationship with them, but since they did not have

1 an ability to run the day to day operations, they
2 hired Glacier first to run the day to day operations.
3 That's when you saw those payments that I explained
4 to Ms. Stanton yesterday, and then at some point when
5 Glacier was no longer to sustain itself, Agile Fish
6 took over those day to day relationships, but I do
7 not know how it operates on the Agile Fish side. Its
8 quite common at these conferences for multiple Native
9 American tribes to represent themselves as a
10 regulatory backstop for a lack of a better term to
11 use the sovereign immunity to processing loans.

12 EDWARD NAZAAR: You sense my next
13 question. My lay opinion and tell me if I am correct
14 or not, is that the tribes are probably the only
15 entity organization that can within the continental
16 United States avoid the limitations created by
17 Operation Chokepoint.

18 MR. KIMBALL: You are very good at
19 guessing. The tribes have been exempted by the
20 Supreme Court several times because of the treaty of
21 I think 1855 allowing the tribal immunity from state
22 law, not federal law. So in order being consultant
23 to several tribes, in order to be compliant, you have
24 to follow federal law. The only federal law that is
25 and I can't say this is where it applies to this type

1 of lending, its call the Tea Letter of Truth and
2 Lending and then some other
3 Gramm-Leach electronic transfer laws, there's a whole
4 compliance list. So those are the federal laws that
5 they have to comply with. Then a tribe would create
6 their own tribal lending laws within their, and then
7 they would go out and this, for example, this tribe
8 was not fortunate enough to receive valuable property
9 or a casino license. There are only so many casino
10 licenses issued by the United States government to
11 tribes and so of the three hundred and sixty-seven
12 recognized tribes, I think there is less than a
13 hundred that have casino licenses. So the other ones
14 have to find ways of creating revenue and this is the
15 most popular way.

16 EDWARD NAZAAR: So the tribes aren't
17 subject to the Patriot Act and --

18 MR. KIMBALL: Yes, of course the
19 Patriot Act.

20 UNIDENTIFIED MALE: This is a very
21 complicated area of the law. There are a number of
22 enforcement actions by various government agencies
23 against various tribes of which the FDC and
24 Department of Justice have alleged that tribes have
25 not complied with various laws and I don't know who

1 Mr. Kimball's clients are and it doesn't sound like
2 by what he is telling me they are involved in the
3 event.

4 MR. KIMBALL: No.

5 UNIDENTIFIED MALE: But there are
6 other parties who have attempted to do similar things
7 with tribes that have gotten themselves into trouble
8 with the Department of Justice.

9 MR. KIMBALL: If you don't follow the
10 FTC guidelines you're in big trouble.

11 UNIDENTIFIED MALE: There are a number
12 of tribes or institutions that have tried to assert
13 that various provisions were not applicable and
14 through the IRS and the government.

15 EDWARD NAZAAR: Now kind of moving
16 along, because we need to keep to the guidelines we
17 discussed. Schedule H shows codebtors to LTS
18 Management LLC. And your name is included, Eldridge
19 Marketing is included, Kemper Marketing is included
20 and Dayton Ventures LLC. Who are Eldridge Marketing,
21 Kemper Marketing and Dayton Ventures?

22 MR. KIMBALL: That's the attorney for
23 all those right there, these two guys.

24 MR. PELOFSKY: No, their attorneys
25 for the plaintiffs.

1 EDWARD NAZAAR: That's --

2 MR. PELOFSKY: There are three
3 entities in the list.

4 EDWARD NAZAAR: In this --

5 MR. PELOFSKY: Yes.

6 UNIDENTIFIED MALE: They are one of
7 the hypothetical fifty entities that we've been
8 referring to, lending portfolios.

9 EDWARD NAZAAR: And why are they the
10 only codebtors as opposed to all the entities shown
11 on Schedule B19, Question 25?

12 MR. PELOFSKY: That was before my
13 time, so I suppose the plaintiff's counsel can tell
14 you something.

15 MR. KIMBALL: Those entities have no
16 debt relationship with LTS.

17 EDWARD NAZAAR: Only Eldridge does,
18 Kemper does, and Dayton does?

19 MR. KIMBALL: There is a list of
20 individuals that had LTS debt, that we borrowed money
21 from, but I don't know. I just know that these two
22 gentleman represent those particular groups.

23 UNIDENTIFIED MALE: No, I think they
24 represent Sirius. I mean --

25 UNIDENTIFIED MALE: Brian Cade (ph)

1 does. I don't think our litigation is listed.

2 UNIDENTIFIED FEMALE: They, Brian
3 Cade also represents I believe Kemper and Dayton as
4 well, and Eldridge. I'm sorry, I mislead --

5 MR. KIMBALL: Brendon --

6 UNIDENTIFIED FEMALE: They --

7 MR. KIMBALL: Brendon represents
8 Eldridge.

9 UNIDENTIFIED MALE: No I don't. No.
10 Eldridge and Kemper and Dayton are all lending
11 portfolios. I believe these three were defendants in
12 the State Court Kirus (ph) action. I think these
13 three are all defendants in our Northrock action
14 slash, we have claims against them and judgment.

15 EDWARD NAZAAR: Yes, when I look at
16 Schedule H, what that looks like to me, the Carrus
17 Partners would have been the plaintiff in a state
18 action and later settlement and the people on the
19 left hand side, Del, Eldridge, Kemper and Dayton look
20 to me like defendants in that state action and I
21 think parties that later enter the settlement maybe.

22 UNIDENTIFIED MALE: Does that make
23 sense?

24 EDWARD NAZAAR: Yeah, I think so.
25 Schedule G deal with executory contacts and the only

1 exec tory contracts shown there is storage with
2 Midland Metals which is Mr. Hodes company I think
3 that identified, correct?

4 MR. KIMBALL: We don't have a
5 contract, he just lets me use his warehouse.

6 EDWARD NAZAAR: My next question is,
7 are there other contracts that exist. There are
8 contracts with the various entities such as Richmond
9 and Woodland and Maple --

10 MR. KIMBALL: Those all expired when
11 the bank accounts closed. But you can see I would be
12 more than happy to present those service agreements.

13 EDWARD NAZAAR: Okay. And there is
14 some form of agreement with Agile Fish, is there not?

15 MR. KIMBALL: Not that I know of.

16 EDWARD NAZAAR: No written or oral
17 agreement?

18 MR. KIMBALL: Not that I know of.

19 EDWARD NAZAAR: But there is also
20 some form of an agreement is there not with the
21 Russian entity that you --

22 MR. KIMBALL: For the software.
23 Yeah, I can find that agreement.

24 EDWARD NAZAAR: What is the name of
25 that Russian entity?

1 MR. KIMBALL: The entity that owns
2 Russia is at various levels, I don't know what the
3 contracts would be with but the Russian company is
4 known as MMK OOO, which is basically LLC. I believe
5 that is who the IT contact is with.

6 EDWARD NAZAAR: Who established the
7 relationship with the Russian entities? Which
8 individual? Yourself or?

9 MR. KIMBALL: I don't understand the
10 question.

11 EDWARD NAZAAR: How did LTS
12 Management Services have a direct or indirect
13 relationship with this the Russian company, either
14 MMK OOO or some other parent --

15 MR. KIMBALL: I was the cofounder of
16 the company, Bisdengi (ph) which is the brand name
17 for MMK along with Sam Furseth and Eric Baker (ph) in
18 2008.

19 EDWARD NAZAAR: Bisdengi?

20 MR. KIMBALL: B-I-S-D-E-N-G-I.

21 UNIDENTIFIED FEMALE: And what does
22 it mean?

23 MR. KIMBALL: Quick money. Dengi is
24 money and Bistro is quick. We have it trademarked.
25 So when we founded the business in 2008, the part of

1 the contribution of Sam and I was to bring over
2 intellectual property of experience and there was no
3 customer management software existed so we modified
4 the online version because our business in Russia is
5 a retail business.

6 EDWARD NAZAAR: Retail meaning bricks
7 and mortar.

8 MR. KIMBALL: Bricks and mortar. We
9 have five hundred and thirty locations, and thirty-
10 nine hundred employees in a hundred-sixty something
11 cities.

12 EDWARD NAZAAR: Five hundred and
13 thirty locations and thirty-nine hundred employees?

14 MR. KIMBALL: Yes.

15 EDWARD NAZAAR: Did you say a
16 hundred-sixty?

17 MR. KIMBALL: A hundred and sixty-
18 five, I think, cities. So the relationship to answer
19 your question was formed of that partnership would be
20 (inaudible).

21 EDWARD NAZAAR: Okay. Now looking at
22 various creditors that are shown on Schedule F, there
23 is an entity called Altitude Money Management Group
24 that is allegedly owed three hundred thousand
25 dollars. What is that? Was that a servicing entity?

1 Was that a lender of money to LTS Management or to
2 the Money Shop?

3 MR. KIMBALL: No, it's an entity that
4 raised money for us and we paid them to do that.

5 EDWARD NAZAAR: And was -- when was
6 the period of Altitude money serviced to you? I
7 mean, was it early on? Was it later?

8 MR. KIMBALL: I don't remember. It's
9 my brother and one of his friends endeavor.

10 EDWARD NAZAAR: Okay. You left me
11 with the impression that people were clamoring in the
12 Kansas City area to get into this venture.

13 MR. KIMBALL: Yes.

14 EDWARD NAZAAR: And so why did you
15 need Altitude money if people were lining up at the
16 door to --

17 MR. KIMBALL: Because people would
18 call my brother and ask to get into the business. My
19 brother was a lobbyist for the industry.

20 EDWARD NAZAAR: Okay.

21 MR. KIMBALL: So they formed a
22 partnership.

23 EDWARD NAZAAR: Creditor number seven
24 is E. Baker. Is that an individual?

25 MR. KIMBALL: Yes.

1 EDWARD NAZAAR: And who is owed two
2 hundred and twenty-nine thousand dollars?

3 MR. KIMBALL: In the (inaudible)
4 amount but --

5 EDWARD NAZAAR: Is it possible to
6 determine what special purpose entity E. Baker loaned
7 money to?

8 MR. KIMBALL: Probably he lent the
9 money to LTS and LTS allocated to one of those.

10 EDWARD NAZAAR: Okay. And is that
11 the case in all of these instances where these
12 people, these lenders are loaning money to LTS
13 Management Services and it in turn is then --

14 MR. KIMBALL: Pushing it to --

15 EDWARD NAZAAR: You know, at its
16 discretion into --

17 MR. KIMBALL: Yes.

18 EDWARD NAZAAR: A particular.

19 UNIDENTIFIED FEMALE: Let me ask a
20 followup to that, isn't it true that an individual
21 could have loaned money directly to one of these
22 special purposes entities and that individual may not
23 be identifies on the schedules.

24 MR. KIMBALL: Because they are not
25 involved with LTS.

1 UNIDENTIFIED FEMALE: Right, is that
2 true?

3 MR. KIMBALL: Yes.

4 UNIDENTIFIED FEMALE: Okay.

5 MR. KIMBALL: The majority, like I
6 said, we were kind of sloppy with the smaller
7 amounts, so, with the exception of one and it was a
8 larger amount.

9 EDWARD NAZAAR: And then there is a
10 company called Baxiden (ph) Corporation in the
11 Seychelles Islands. How were they involved?

12 MR. KIMBALL: They were Russians.

13 EDWARD NAZAAR: So Russian money came
14 into LTS Management.

15 MR. KIMBALL: Yes.

16 EDWARD NAZAAR: and LTS Management
17 money went into Russia?

18 MR. KIMBALL: No.

19 EDWARD NAZAAR: Or went into some
20 related affiliated that ultimately got to Russia.

21 MR. KIMBALL: No LTS Management, my
22 money that I made and Sam's money that he made went
23 into Russia.

24 EDWARD NAZAAR: As a distribution to
25 you.

1 MR. KIMBALL: After we had been
2 distribution or profit sharing or whatever you want
3 to call it, but as, just as the same in Kansas City
4 we spent a lot of time in Russia and Russian
5 individuals asked if they could invest in the United
6 States business.

7 EDWARD NAZAAR: I get the sense that
8 the lenders who loaned money early on in the
9 enterprise, the LTS Management enterprise, received
10 either more money or all of their money back whereas
11 later lenders did not. Am I correct in that
12 assessment?

13 MR. KIMBALL: It depended on where
14 you were in your amortization schedule. So if you
15 invested in 2005 and not reinvested, you've been paid
16 in full and moved on. If you invested in April of
17 2013, you may have gotten one or two payments of your
18 amortization schedule or zero.

19 EDWARD NAZAAR: At what point did
20 this company become insolvent?

21 MR. KIMBALL: I don't know what that
22 means.

23 EDWARD NAZAAR: Where its liabilities
24 exceeded its assets.

25 MR. KIMBALL: I don't know.

1 EDWARD NAZAAR: There were, I
2 presume, balance sheets were created for LTS
3 Management.

4 MR. KIMBALL: Yes.

5 EDWARD NAZAAR: And were those done
6 internally or were those done --

7 MR. KIMBALL: Internally.

8 EDWARD NAZAAR: And were audited
9 Financial Statements ever prepared?

10 MR. KIMBALL: They were but we quit
11 doing them four or five years ago, I don't remember.

12 EDWARD NAZAAR: Four or five years
13 from now, so meaning 2010 or '11.

14 MR. KIMBALL: I don't know.

15 EDWARD NAZAAR: And why were audited
16 financials discontinued?

17 MR. KIMBALL: We just quit doing
18 them.

19 EDWARD NAZAAR: And how would I
20 obtain income statements and balance sheets for the
21 company?

22 MR. KIMBALL: I have all of them on
23 the computer. I have actually given Ms. Stanton a
24 copy of that, but I'm more than happy to make a file
25 or drive or whatever for you.

1 UNIDENTIFIED FEMALE: Well, Ed you
2 got the disk I sent you.

3 EDWARD NAZAAR: Yes.

4 UNIDENTIFIED FEMALE: I just want to
5 make sure.

6 EDWARD NAZAAR: Now help me out,
7 Evergreen Partners. You had mentioned Evergreen
8 Partners in the past and it was, what was its
9 relationship to LTS Management? You had Evergreen
10 Capital partners and Evergreen International which
11 you and Sam owned both companies. What did Evergreen
12 Capital partners do?

13 MR. KIMBALL: Evergreen Capital
14 partners was the LLC that would be the owner of these
15 or a partner with, if there was an investment. So
16 Evergreen had no function other than to be the owner
17 of the LLC. So if you lent money to Richmond,
18 Richmond was owned by Evergreen Capital partners.

19 EDWARD NAZAAR: And was the sole
20 member of Richmond.

21 MR. KIMBALL: It depends on the
22 relationship, if it was a fifty-fifty partnership
23 then the, using Brendon again, he would be partners
24 with Evergreen Capital partners.

25 EDWARD NAZAAR: And so there was a,

1 these are all limited liability companies --

2 MR. KIMBALL: For the most part.

3 EDWARD NAZAAR: For the most, and so
4 there is either an operating agreement that would
5 denominate this.

6 MR. KIMBALL: There should be.

7 EDWARD NAZAAR: And were their
8 partnerships or were they corporations?

9 MR. KIMBALL: They were all LLCs for
10 the lending funds. Some of the other entities on
11 there might have been S-corps but anything that an
12 investor put into was all a Delaware LLC.

13 EDWARD NAZAAR: And the only purpose
14 of Evergreen Capital partners, only business purpose
15 was to hold the equity interest in the special
16 purpose entities defined on document 82-1.

17 MR. KIMBALL: Yes.

18 EDWARD NAZAAR: And then so what is
19 Evergreen International?

20 MR. KIMBALL: Evergreen International
21 is the company we set up to, right now its only asset
22 is the company that owns, a company that is a third
23 owner of the organizational chart. Its quite robust
24 that it owns Russia. The original version was to
25 expand into Europe and different areas but at this

1 point it only owns a company called Ivonics.

2 EDWARD NAZAAR: And is there an
3 organization chart that is available?

4 MR. KIMBALL: Yes.

5 EDWARD NAZAAR: And you have
6 procession of that or --

7 MR. KIMBALL: Yes.

8 EDWARD NAZAAR: Or presumed.

9 UNIDENTIFIED FEMALE: I can get you
10 that.

11 EDWARD NAZAAR: Okay. The creditors
12 that are shown on Schedule F, do they have a cause of
13 action? Is one of their creditors, not only LTS
14 Management but the special purpose entities, only
15 LTS?

16 MR. KIMBALL: Yes.

17 EDWARD NAZAAR: And so --

18 MR. KIMBALL: Let me just define
19 that. Some of these creditors may have made
20 additional investments, let's say Brendon for
21 example, found an extra five hundred thousand dollars
22 that maybe he had a new --

23 EDWARD NAZAAR: A new --

24 MR. KIMBALL: A new hundred thousand
25 dollar investment with LTS but then if he came in

1 with a larger amount, we created an LLC so there may
2 be some people in there that have more than one, but
3 anybody listed in there would have not.

4 EDWARD NAZAAR: So what happens is
5 that LTS Management LLC is really a clearing house.
6 Money is lent to LTS Management LLC and then it
7 allocates it at its discretion to these various
8 special purpose entities, these specialities shown on
9 document 82-1 and then correspondingly, the Money
10 Shop --

11 MR. KIMBALL: Loan Shop.

12 EDWARD NAZAAR: The Loan Shop is the
13 trade name for LTS Management enters a separate loan
14 with the consumer and a loan document is signed, and
15 when its loan document is returned, then LTS
16 determines which of the special purpose entities will
17 fund that loan.

18 MR. KIMBALL: Essentially yes.

19 EDWARD NAZAAR: Change it, if I said
20 it wrong just tell me how I said it wrong.

21 MR. KIMBALL: You said it, I think
22 pretty accurately.

23 UNIDENTIFIED FEMALE: But only as to
24 the creditors that are identified in Schedule F.
25 There are other investors that directly invested into

1 these other entities. I just want to make sure so
2 there is not a hundred percent of --

3 MR. KIMBALL: They're not involved in
4 LTS.

5 UNIDENTIFIED FEMALE: Right.

6 EDWARD NAZAAR: And are there records
7 that would identify who those direct investors are?

8 MR. KIMBALL: Yes.

9 EDWARD NAZAAR: And I think you said
10 earlier that in order to become a direct investor,
11 you had to start out as a lender and prove you're
12 bona fide. You had to loan money (inaudible -
13 coughing).

14 MR. KIMBALL: That was the
15 traditional route.

16 EDWARD NAZAAR: Yeah.

17 UNIDENTIFIED MALE: I think you are
18 mixing terms, direct investor, because there would be
19 a direct equity investor which is what Del said you
20 had to be a debt investor first. The direct
21 investment would also be rather than getting a
22 promissory note from LTS, you could get a promissory
23 note and loan directly to one of fifty or so
24 entities.

25 UNIDENTIFIED FEMALE: And those

1 people may not be identified or probably not
2 identified in the LTS (inaudible - clearing throat)
3 Schedules because LTS doesn't owe them any money.
4 One of these other entities owes the money.

5 EDWARD NAZAAR: All right. Your
6 Schedule D of LTS Management LLC shows secured claims
7 and there are no secured claims so no one has a lien
8 on the LTS Management LLC assets, whatever assets
9 there may be. Is that a correct?

10 MR. KIMBALL: I believe so. I am not
11 a hundred percent sure.

12 EDWARD NAZAAR: The CoreFirst at one,
13 did CoreFirst or United Missouri at any time have a
14 lien on the assets of LTS Management LLC?

15 MR. KIMBALL: I never banked at
16 United Missouri. Missouri Bank and Trust.

17 EDWARD NAZAAR: Missouri Bank and
18 Trust.

19 MR. KIMBALL: At some point we had a
20 long, long time ago, credit facility with Missouri
21 Bank but I don't know what is was collateralized by
22 and CoreFirst, the tax partnership determined how the
23 collateralization was and I would probably give you
24 an inaccurate answer because it is very complex.

25 EDWARD NAZAAR: And when you are

1 talking a tax partnership, the entity that had the
2 condo?

3 MR. KIMBALL: Our office building.

4 EDWARD NAZAAR: Office building, all
5 right.

6 MR. KIMBALL: Sorry, it was, even to
7 this day I can't understand it.

8 EDWARD NAZAAR: You have identified
9 in Schedule B an account at Five Star Bank with a
10 balance of one hundred ninety-six dollars and thirty-
11 one cents and that's the only bank account that now
12 exists at any, and within the two years before the
13 filing of the involuntary petition which is of course
14 in August of 2015, were there any other bank accounts
15 for either Glacier or LTS, other than the Five Star?

16 MR. KIMBALL: Glacier had an account
17 at BMO Harris for a period of time and then they
18 closed it. I don't believe we had an LTS account
19 there and obviously we had the accounts at CoreFirst
20 until September and I'm not quite sure if LTS had the
21 account with BMO Harris in Canada or was with the
22 processing company.

23 EDWARD NAZAAR: Okay.

24 MR. KIMBALL: I have been trying to
25 figure that out and its, I have plenty of stuff that

1 you can look at and we can try to figure it out
2 together.

3 EDWARD NAZAAR: Okay. Item number
4 22, is patent, copyrights, and other intellectual
5 property and there is an identification of small loan
6 computer programs, value unknown. What is -- what
7 are you referring to there? Is that the software that
8 is in the possession of Agile Fish?

9 MR. KIMBALL: Well, LTS never owned
10 the software, DMS did everything on the software so I
11 am not quite sure if I answered that question
12 correctly.

13 EDWARD NAZAAR: Yeah, I'm just
14 showing, that's what I'm trying to --

15 MR. KIMBALL: I think that would
16 probably needs to be amended.

17 EDWARD NAZAAR: All right. I would
18 like to be keep my word and with that --

19 MR. KIMBALL: My ticket last time was
20 ninety-seven dollars.

21 EDWARD NAZAAR: Any quick questions
22 from anyone else?

23 UNIDENTIFIED MALE: Yeah, again
24 focused --

25 UNIDENTIFIED FEMALE: I have one.

1 UNIDENTIFIED MALE: Go ahead.

2 UNIDENTIFIED FEMALE: Okay, early on
3 you were talking about the services provided by Edata
4 and you said for an example you might buy four
5 thousand leads and of those four thousand leads, you
6 might get a thousand dollars in loans.

7 MR. KIMBALL: Make a thousand loans.

8 UNIDENTIFIED FEMALE: Make a thousand
9 loans. So as to the other three thousand leads that
10 you get, do you sell those or what happens to those
11 leads?

12 MR. KIMBALL: Just delete them.

13 UNIDENTIFIED FEMALE: Okay. So there
14 is no way to generate or there wasn't any way to
15 generate any funds from those leads.

16 MR. KIMBALL: No because we deemed
17 them inappropriate to make a loan to.

18 UNIDENTIFIED FEMALE: Okay.

19 MR. KIMBALL: So we would just delete
20 them as far as I know.

21 UNIDENTIFIED FEMALE: And you
22 couldn't sell those leads to some other secondary
23 market or anything like that.

24 MR. KIMBALL: We could have, but we
25 didn't.

1 UNIDENTIFIED FEMALE: Okay. That's
2 the only question I have.

3 EDWARD NAZAAR: Jeff.

4 UNIDENTIFIED MALE: Okay. At one
5 point, you talked about the idea of the fees of LTS
6 where charges twenty percent of the dollars on the
7 street, get on an account. Was that on an LLC by LLC
8 basis calculated?

9 MR. KIMBALL: I believe so.

10 UNIDENTIFIED MALE: And that balance
11 of on the street, is that an average balance for the
12 month, the beginning balance, any?

13 MR. KIMBALL: To my understanding,
14 when I was doing it, I would take the balance of the
15 last day of the month. It, when I hired a CFO, I
16 believe he continued that policy.

17 UNIDENTIFIED MALE: Whatever the
18 balance was the last day of the month.

19 MR. KIMBALL: Yes.

20 UNIDENTIFIED MALE: Did that also
21 encourage LTS in its role of when say at fourteen
22 days out for twenty-one days that a loan looks bad,
23 to try to get an additional or replacement loan into
24 that particular account as soon as possible.

25 MR. KIMBALL: Yes, that was the --

1 UNIDENTIFIED MALE: I mean, if you
2 did it right you could actually get that money back
3 into the account by another loan within that same
4 month.

5 MR. KIMBALL: The goal was if someone
6 paid, to lend that money back out, and if someone
7 defaulted, to find somebody to replace that loan but
8 like I said thirty percent of the people that you
9 lent money to just disappeared so.

10 UNIDENTIFIED MALE: Did the service
11 agreements that LTS had with its various lending
12 companies, did it allow a performing or nonperforming
13 loan to be moved about between those different
14 companies?

15 MR. KIMBALL: I don't think I
16 understand your question.

17 UNIDENTIFIED MALE: Let's say you had
18 an LTS vendor who had a small, but didn't qualify for
19 their own LLC, they have a loan that is basically
20 being run out on an account, can the loan that is
21 performing be moved into an LLC and out of LTS own
22 accounting?

23 MR. KIMBALL: Well, LTS didn't make
24 loans. So if it was from an LLC, that loan remained
25 with that LLC or until it was paid in full or

1 defaulted.

2 UNIDENTIFIED MALE: Okay, let me back
3 up just a second. I thought you told me before this,
4 sometimes LTS though it was not really the best of
5 plans sometimes did take on investors directly and
6 that some of that was in the form of promissory
7 notes.

8 MR. KIMBALL: Yes. I thought you
9 were talking about making loans to the ultimate
10 borrower.

11 UNIDENTIFIED MALE: Right. Let me
12 back up and make that simpler. If we have two
13 lending companies, both of them an LLC, okay. Again,
14 we will do via Brendon (laughing), in my company I've
15 got a loan that is performing. Does LTS for any
16 reason ever take a performing loan out of my company
17 and put it in Brendon's?

18 MR. KIMBALL: No.

19 UNIDENTIFIED MALE: How about a
20 nonperforming loan or something that is --

21 MR. KIMBALL: No.

22 UNIDENTIFIED MALE: Next, is it
23 possible for Brendon and I as say investors or
24 whatever, different LLCs, that we actually have
25 different underwriting standards for what LTS will

1 allow into our LLC.

2 MR. KIMBALL: No, everybody had the
3 same underwriting statement.

4 UNIDENTIFIED MALE: In the way that
5 these were structured, is it true that if the
6 investor was in the form of not equity investment
7 but, you know, working through a promissory note,
8 would it be true then that when that promissory note
9 was issued to an LLC, one of the lending companies
10 you talked about, that only the LLC owing that lender
11 any money?

12 MR. KIMBALL: Only the LLC did, yes.

13 UNIDENTIFIED MALE: So, and what I
14 want to say for an example is, the LLC promissory
15 notes that went out to lenders, like you say, if the
16 market was right carrying thirty percent interest,
17 those promissory notes were not guaranteed by any
18 person or entity.

19 MR. KIMBALL: They were as far, and
20 I'm not an attorney, but they were categorized as
21 non-recourse promissory notes.

22 UNIDENTIFIED MALE: Okay, so there
23 was never a guarantor of any of those notes.

24 MR. KIMBALL: There were some notes
25 that we guaranteed on certain occasions as you know

1 with some of the friends clients and some of your
2 clients for various reasons.

3 UNIDENTIFIED MALE: As from the
4 perspective of LT --

5 MR. KIMBALL: The majority of these
6 LLCs were non-guaranteed other than the entity had
7 some kind of a guarantee.

8 UNIDENTIFIED MALE: And again when
9 you say the entity, it is the discreet LLC lending
10 company.

11 MR. KIMBALL: Yeah, there was, the
12 recourse would be to go back to Richmond Marketing.

13 UNIDENTIFIED MALE: Okay, and again
14 with some exceptions typically not guaranteed by LTS.

15 MR. KIMBALL: No, no.

16 UNIDENTIFIED MALE: Okay. And LTS
17 also does not have any other type of ownership
18 relationship with these lending company issuers of
19 promissory notes, correct? LTS doesn't own them.

20 MR. KIMBALL: No. The owners were
21 always Evergreen Capital Partners.

22 UNIDENTIFIED MALE: Does LTS ever
23 loan the LLCs money?

24 MR. KIMBALL: I don't know if I
25 understand that.

1 UNIDENTIFIED MALE: Could there be a
2 difficulty with return or short fall inside of an LLC
3 that LTS had the ability to, by the process of
4 lending money, over a short-term deal, put any
5 additional money into an LLC that was not strictly
6 the proceeds of a performing loan within that LLC?

7 MR. KIMBALL: I don't know if I could
8 answer that question because obviously the people
9 that lent LTS, the money was put into entities that
10 may have already had money in there, I don't know. I
11 don't know if I can answer that accurately.

12 UNIDENTIFIED MALE: Okay, is it
13 possible then for LTS money to actually move into one
14 of the lending LLCs under certain circumstances?

15 MR. KIMBALL: It might possibly, I
16 don't know.

17 UNIDENTIFIED MALE: So that would be
18 an example if there was a bad portfolio that couldn't
19 service the debt.

20 MR. KIMBALL: That would be a reason,
21 the reason that the, the reason would be taking
22 Richmond Marketing that would just, let's say there
23 was an investor who had three hundred thousand
24 dollars in there and you brought a hundred thousand
25 dollars in, we didn't create an LLC for you, we just

1 added it to Richmond Marketing and made an agreement
2 between Richmond Marketing and LTS.

3 UNIDENTIFIED MALE: What if I were a
4 million dollar investor and a standalone portfolio,
5 but the portfolio didn't perform well that month,
6 such that it didn't make enough to --

7 MR. KIMBALL: We never, we never lent
8 money to --

9 UNIDENTIFIED MALE: I just wouldn't
10 get my interest payment that month.

11 MR. KIMBALL: No, we always mailed
12 our interest payments.

13 UNIDENTIFIED MALE: But if the entity
14 didn't have the money to pay it, then I assumed LTS
15 would have had to cover that shortfall for that
16 month.

17 MR. KIMBALL: I don't recall that
18 ever happening.

19 UNIDENTIFIED MALE: Like factually it
20 just didn't happen.

21 MR. KIMBALL: Typically that was not
22 a, our run rate that typically didn't happen.

23 UNIDENTIFIED MALE: It always made
24 money.

25 MR. KIMBALL: Yeah, I mean that's why

1 we were around for thirteen years.

2 UNIDENTIFIED MALE: So the smaller
3 investor that comes in with a hundred thousand
4 dollars that you just said would be put into Richmond
5 as opposed to trying to form another LLC for that
6 small amount, again this is an example. The phrase
7 you said I was trying to follow up on is, and if they
8 did that then Richmond would have an agreement with
9 LTS, is that right?

10 MR. KIMBALL: Yeah.

11 UNIDENTIFIED MALE: And what is the
12 nature of that kind of an agreement between an LLC
13 and LTS, if the LLC is holding additional money.

14 MR. KIMBALL: There would be some
15 kind of document, but I haven't seen one in a long
16 time, so I can't tell you what exactly --

17 UNIDENTIFIED MALE: But it wouldn't
18 be part of the standard servicing agreement that or
19 service agreement that LTS entered with the LLCs.
20 Did the LTS entity or its officers have any form of
21 account authority at each of these accounts that were
22 numerous held at CoreFirst Bank?

23 MR. KIMBALL: Who was, we formed all
24 the bank accounts for these entities.

25 UNIDENTIFIED MALE: Do you remember,

1 given you know that there was so many of them, was
2 the account typically formed by the efforts of
3 employees of LTS?

4 MR. KIMBALL: Yes. We had a
5 longstanding relationship with the bank.

6 UNIDENTIFIED MALE: Okay. And did
7 they open those accounts in a standard format of what
8 the authorities and the ownership of the account was?

9 MR. KIMBALL: Yes.

10 UNIDENTIFIED MALE: What was the
11 standard form of the authorities and ownership of the
12 account at CoreFirst?

13 MR. KIMBALL: Typically we would open
14 up a bank account with an LLC. You have to show the
15 operating agreement and certificate of good standing,
16 all those other things. So every time, and with ACH
17 it's further steps because ACH is a form of credit in
18 the banking world. So you would have to get approval
19 from the bank to open up each bank account and
20 typically as I said myself as CFO and Sam Furseth
21 would be on the account, but every account, the bank
22 had a set procedure for opening up a bank account and
23 you would have to ask them the step by step process.

24 UNIDENTIFIED MALE: And the CFO was
25 Mr. Sanchez (ph)?

1 MR. KIMBALL: Yes.

2 UNIDENTIFIED MALE: So each, you,
3 Sam, and Sanchez would have account authority for
4 signing checks or authorizing transactions?

5 MR. KIMBALL: Yes.

6 EDWARD NAZAAR: What is Sanchez's
7 first name?

8 MR. KIMBALL: David.

9 UNIDENTIFIED MALE: And the account
10 ownership would be in the lawful name of the LLC?

11 MR. KIMBALL: Yes.

12 UNIDENTIFIED MALE: Okay. Did all
13 three of yourself, Sam, and Mr. Sanchez, all three of
14 you were LTS employees or officers?

15 MR. KIMBALL: The only officers were
16 Sam and I.

17 UNIDENTIFIED MALE: Okay.

18 MR. KIMBALL: Well, like I said, I
19 can't remember if LTS is an S-Corp or LLC. As an LLC
20 they only have two members but there may be once the
21 account was established Mr. Sanchez, it would be
22 impossible to manage fifty accounts so he would have
23 limited authorization for people in the accounting
24 department to do certain daily functions.

25 UNIDENTIFIED MALE: LTS's accounting

1 department.

2 MR. KIMBALL: LTS accounting

3 department.

4 UNIDENTIFIED MALE: Okay.

5 MR. KIMBALL: They would be limited
6 to, like for example, sending a file or communicating
7 with, we had a dedicated, as you can imagine
8 (laughing), several dedicated people just to our
9 accounts.

10 UNIDENTIFIED MALE: Okay. And
11 Evergreen Capital had no employees?

12 MR. KIMBALL: No employees.

13 UNIDENTIFIED MALE: You said
14 something about the idea of minimizing monthly temper
15 tantrums by the idea of having somebody go through
16 the, I'm sorry, more standard, more average
17 experience was that you would try to get people to go
18 through the process of handling their investment by
19 lending before they went into equity, and that was
20 because some of them could not deal with not getting
21 a payment at the end of the month.

22 MR. KIMBALL: There is a bit of
23 seasonality as any business and we found that the
24 debt instrument was more consistent and people like
25 to know what they are going to get and the person who

1 may have a longer relationship with us would
2 understand that if we did a partnership whereas a
3 profit split, that there may be months that you might
4 not get checks, but we learned the hard way from the
5 temper tantrums of why didn't I get a check this
6 month.

7 UNIDENTIFIED MALE: But that would
8 only be an equity investor because you got --

9 MR. KIMBALL: Yes.

10 UNIDENTIFIED MALE: And let me follow
11 up that because you paid your promissory notes every
12 month --

13 MR. KIMBALL: Yes.

14 UNIDENTIFIED MALE: Regardless of
15 maybe a deficient performance in the particular
16 company.

17 MR. KIMBALL: We paid our promissory
18 notes as far as I knew every month.

19 UNIDENTIFIED MALE: Are you of
20 recollection then that each of these LLC companies
21 that LTS was servicing that all of them performed
22 financially in a way that allowed LTS to pay what is
23 basically an average of thirty percent per month, I'm
24 sorry, thirty percent per year?

25 MR. KIMBALL: Per year.

1 UNIDENTIFIED MALE: Per year rate of
2 interest payments on a monthly basis to all of the
3 (inaudible)?

4 MR. KIMBALL: As far as I remember
5 yes.

6 UNIDENTIFIED MALE: And that no extra
7 monies were required to be input into those systems
8 in order to keep those payments at a constant --

9 MR. KIMBALL: Not that, not that I
10 know of.

11 UNIDENTIFIED MALE: You used the term
12 at one time, a portfolio balance, is that a term that
13 applies to portfolios like across the board at LTS or
14 is portfolios something that is a word that LTS uses
15 to describe the lending amounts within the one of the
16 lending LLCs?

17 MR. KIMBALL: Portfolio balance would
18 be the amount of what we would consider non-written
19 off loans in an LLC.

20 UNIDENTIFIED MALE: In an LLC, okay.

21 UNIDENTIFIED MALE: Can inject?

22 UNIDENTIFIED MALE: Yeah.

23 UNIDENTIFIED MALE: I'll be real
24 quick. I just want to, you indicated that you would
25 pay promissory notes every month. I presume, you

1 means LTS Management Services?

2 MR. KIMBALL: The check would be from
3 the LLC.

4 UNIDENTIFIED MALE: From LTS
5 Management Services?

6 MR. KIMBALL: No, the check would be
7 from Richmond Marketing to Brendon not from LTS.

8 UNIDENTIFIED MALE: And to the extent
9 that the LLC had insufficient funds at its disposal
10 to write that check, then LTS Management would inject
11 money into the LLC? How did that work?

12 MR. KIMBALL: I don't know any
13 circumstance like that so.

14 UNIDENTIFIED MALE: He said he thinks
15 factually that never happened. It always made enough
16 to cover.

17 UNIDENTIFIED MALE: All right.

18 MR. KIMBALL: The payments were
19 distributed over a monthly period so it was basically
20 determinant on deposits and stuff like that. I did
21 not handle the payment processing after probably 2005
22 when they hired Mr. Sanchez.

23 UNIDENTIFIED MALE: I'm going to stay
24 right on the same deal because maybe it is at that
25 level of detail, the way LTS is actually managing

1 everybody's accounts okay, when you said, right their
2 monthly payment would come from the LLC not LTS,
3 correct? Would that monthly payment come out of the
4 same CoreFirst account that the retailer borrowers
5 were basically paying their loans into.

6 MR. KIMBALL: As far as my
7 understanding, yes. I don't believe that we set up
8 two accounts for each LLC but I could be incorrect.

9 UNIDENTIFIED MALE: Okay. Would Mr.
10 Sanchez know that particular --

11 MR. KIMBALL: I can find that out and
12 look at the records.

13 UNIDENTIFIED MALE: Okay.

14 MR. KIMBALL: It's real simple, but
15 my belief is that there was one account for LLC.

16 UNIDENTIFIED MALE: You also made a
17 cite reference to the idea of a little bit of
18 differential treatment of a particular investor
19 depending on whether they had paid their monthly
20 fees. Was the normal twenty percent fee that had to
21 be paid voluntarily or separately by the LLC as
22 opposed to just being automatically taken out by LTS?

23 MR. KIMBALL: The investor didn't
24 have any access to the bank account.

25 UNIDENTIFIED MALE: Okay, no access

1 to it.

2 MR. KIMBALL: No access. So
3 everything was done internally, the twenty percent
4 was not taken one lump sum but may be taken maybe
5 over multiple periods of a month because of the way
6 the business runs that you just don't get all your
7 payments in one day, they were paid over twenty-one
8 business days a month. So one week you may five
9 percent of your overhead, one week you may pay three
10 percent. I did not do that after 2005 like I said.

11 UNIDENTIFIED MALE: Okay. So
12 whatever the twenty percent of service fee monthly
13 fee would be on an LLC account, it would not
14 typically be taken out of the account all in the same
15 day.

16 MR. KIMBALL: No.

17 UNIDENTIFIED MALE: Would it be taken
18 out in arrears?

19 MR. KIMBALL: It was, I'm not sure if
20 I understand the --

21 UNIDENTIFIED MALE: Would it be based
22 upon the prior month's last day balance?

23 MR. KIMBALL: Prior months, so you
24 would not be paying for the current month. You would
25 be paying for the month before.

1 UNIDENTIFIED MALE: So a payment on
2 June 30th because you say you like to pay at the last
3 day of the month, the twenty percent.

4 MR. KIMBALL: That's how we calculate
5 it, but we would take it in July. So if your balance
6 was one hundred thousand dollars, we would take in
7 July the following month --

8 UNIDENTIFIED MALE: July 30th, July
9 31st you would be paid.

10 MR. KIMBALL: So if your balance on
11 June 30th whatever the last day of June is, there is
12 a hundred thousand dollars and in July you would pay
13 twenty thousand over that month depending on cash
14 flow.

15 UNIDENTIFIED MALE: Okay, got it.

16 MR. KIMBALL: So.

17 UNIDENTIFIED MALE: On availability.

18 MR. KIMBALL: On availability because
19 the majority of the world gets paid on Friday but
20 there is, you know, the biggest three days of the
21 month are the 31st, 1st, and 3rd.

22 UNIDENTIFIED MALE: Wrap it up with
23 this temper tantrum deal. Those could only have come
24 from equity investors then because no (inaudible) was
25 ever disappointed.

1 MR. KIMBALL: I would say they would,
2 in an amortization schedule we would have a date, say
3 the 17th, but if they didn't get their check until
4 the 27th, there was always somebody would bitch about
5 it, but that was just typical but they got paid.

6 UNIDENTIFIED MALE: Okay. What sort
7 of thing would delay their payment?>

8 MR. KIMBALL: Availability of cash
9 because bills and payroll and stuff like that came
10 before the debt payment. So if you had payroll, our
11 payroll let's say was a million dollars, if that was
12 on the same day that that payment should happen, that
13 debt payment would be paid late.

14 UNIDENTIFIED MALE: So the retail
15 borrowing and repayment, interest payment performance
16 inside an LLC bank account at CoreFirst, that will
17 purpose of money and movement of money. That was not
18 necessarily the source of where the investor received
19 their monthly payment.

20 MR. KIMBALL: No, they received their
21 payment from the proceeds of the loans that were in
22 that LLC.

23 UNIDENTIFIED MALE: Okay, then let me
24 ask you this. Did you ever pay LTS's overhead out of
25 those LLC accounts?

1 MR. KIMBALL: I already told you that
2 they paid the overhead as part of the management fee.

3 UNIDENTIFIED MALE: Okay, so you're
4 paying out through the course of the month that
5 twenty percent.

6 MR. KIMBALL: Yeah and that's --

7 UNIDENTIFIED MALE: And that's the
8 only thing that's coming out of those accounts.

9 MR. KIMBALL: I don't understand what
10 you're saying.

11 UNIDENTIFIED MALE: You say hit
12 payroll. You come to payroll day in the middle of
13 the month, yes to every two weeks or something.

14 MR. KIMBALL: We pay on Fridays.
15 Yeah.

16 UNIDENTIFIED MALE: Okay, where did
17 the money come from?

18 MR. KIMBALL: The money was pulled
19 out of all these different LLCs to make payment.

20 UNIDENTIFIED MALE: To pay LTS
21 payroll.

22 MR. KIMBALL: Right. That is part of
23 the service agreement.

24 UNIDENTIFIED MALE: Okay. And were
25 they all hit with the, the pull of money from their

1 accounts, was it based on the amount of money
2 proportionately of the LLCs compared to each other or
3 an equal amount taken out of each?

4 MR. KIMBALL: I don't know. I didn't
5 do those calculations.

6 UNIDENTIFIED MALE: Okay, but bottom
7 line is you went for the period of month that LTS
8 overhead items were all coming out of those LLC
9 accounts.

10 MR. KIMBALL: That's why we ran those
11 accounts for people.

12 UNIDENTIFIED MALE: And when they
13 came out of those LLC accounts, did they go into an
14 LTS operating account first?

15 MR. KIMBALL: I would assume so, yes.

16 UNIDENTIFIED MALE: You mentioned in
17 discussion with Trustee, just one single debt I want
18 to follow up on, E. Baker two hundred and twenty sum
19 thousand bucks?

20 MR. KIMBALL: Sorry.

21 UNIDENTIFIED MALE: I believe you
22 were describing or talking about a debt that is on
23 your Schedules for two hundred and twenty thousand
24 dollars roughly that I think was identified as from
25 owed to E. Baker.

1 MR. KIMBALL: I think this name is
2 Eric Baker (ph).

3 UNIDENTIFIED MALE: Okay. Do you
4 know whether that is an investor or a note holder?

5 MR. KIMBALL: It's a debt holder.

6 UNIDENTIFIED MALE: A debt holder in
7 LTS directly?

8 MR. KIMBALL: Yes.

9 UNIDENTIFIED MALE: Do you know
10 whether that particular promissory debt was moved
11 into any of the LLCs?

12 MR. KIMBALL: I would assume so, I
13 don't know which one though.

14 UNIDENTIFIED MALE: Thank you.

15 UNIDENTIFIED FEMALE: Can I just
16 follow up on just so we are all clear, because I
17 thought I understood and then you asked a question
18 and it kind of threw me. If an investor is owed
19 money from one of these LLCs, their return is going
20 to be paid out of the LLC directly, is that correct?

21 MR. KIMBALL: Yes.

22 UNIDENTIFIED FEMALE: Okay, the LLC is
23 not going to pay LTS before it pays the LLC for its
24 investment, for the investment portion of the
25 (inaudible).

1 MR. KIMBALL: I don't understand your
2 questions.

3 UNIDENTIFIED MALE: Let me ask it
4 this way and maybe it will make sense. There was an
5 order of payment in which funds were used for the
6 individual LLC accounts. First went to pay LTS
7 Management fee, then went to pay the notes and then
8 any money that was left over it was distributed to
9 you and Mr. Furseth, is that correct?

10 UNIDENTIFIED FEMALE: That's not what
11 I am asking.

12 UNIDENTIFIED MALE: Oh, I'm sorry.

13 UNIDENTIFIED FEMALE: That's not what
14 I'm asking.

15 UNIDENTIFIED MALE: That's a good
16 question. That's a good question separately.

17 UNIDENTIFIED FEMALE: Okay, so when
18 the LLC would pay its operating expenses, it would
19 clearly just pay LTS, is that correct, the twenty
20 percent?

21 MR. KIMBALL: Yes.

22 UNIDENTIFIED FEMALE: Okay, when the
23 LLC owed its investor, the LLC would pay the investor
24 directly, is that also true?

25 MR. KIMBALL: Yes.

1 UNIDENTIFIED FEMALE: The LLC would
2 not pay LTS and then LTS wouldn't pay the investor
3 for that particular fund.

4 MR. KIMBALL: Not unless the investor
5 was one of these listed people.

6 UNIDENTIFIED FEMALE: That's right.
7 That's what I just wanted to make sure.

8 MR. KIMBALL: Like Eric Baker.

9 UNIDENTIFIED MALE: Now I want to re-
10 ask my question, so hypothetically there is a hundred
11 thousand dollars in one of these accounts that needs
12 to be distributed. The order of distribution as I
13 understand your testimony today would be first to LTS
14 Management fee, then to --

15 UNIDENTIFIED MALE: Twenty thousand.

16 UNIDENTIFIED MALE: Twenty thousand
17 because that would be twenty percent, then to the
18 note holder, whatever was due on the amortization
19 schedule, then if there were fund left over, those
20 funds might be retained earnings or they might be
21 paid to you or Mr. Furseth as the owners.

22 MR. KIMBALL: Theoretically you're
23 correct.

24 UNIDENTIFIED MALE: We changing now,
25 let's change the facts. There is a thirty percent

1 write off because thirty percent of your customer or
2 the customer doesn't pay, so you have in my scenario
3 let's use five hundred thousand. So you've got a
4 hundred thousand dollar management fee on that, so
5 you're down to four hundred, you've got a thirty
6 percent default rate so that's a hundred and fifty,
7 so then you are down to two hundred and fifty
8 thousand dollar balance that is to be used to pay
9 five hundred thousand dollars of lender investor
10 money because they put five hundred into it.

11 MR. KIMBALL: Let me give you this --
12 let me give you the simple way you calculate the
13 payment. If you have a million dollar fund that
14 generates six hundred thousand dollars in fees.
15 Okay.

16 UNIDENTIFIED MALE: A month.

17 MR. KIMBALL: A month.

18 UNIDENTIFIED MALE: okay.

19 MR. KIMBALL: Those fees are not part
20 of the default rate, okay. That's, so our default
21 rate on fees was twenty percent so that's, what's
22 that, a hundred and fifty thousand dollars?

23 UNIDENTIFIED MALE: Twenty percent on
24 six hundred is a hundred and twenty.

25 MR. KIMBALL: A hundred and twenty,

1 so now you're down to four eighty. You lose on a
2 monthly basis, once you have the established account
3 out there, twenty percent. So that's two hundred
4 thousand dollars you have to repay to keep the fund
5 at a million dollars, right. So now we are down to
6 two eighty, right.

7 UNIDENTIFIED MALE: Okay.

8 MR. KIMBALL: And then you pay your
9 management fee of two hundred thousand, you have
10 eighty thousand dollars left over to pay interest
11 payments, etc, etc, and then whatever is left over
12 after that.

13 UNIDENTIFIED MALE: Would that be
14 enough to satisfy the debt typically?

15 MR. KIMBALL: Oh yeah.

16 UNIDENTIFIED MALE: Because and I
17 think this is to correct what you're thinking Ed.
18 They are not repaying the note in full every month,
19 they are paying this on a three year amortization.

20 MR. KIMBALL: A three or four year
21 amortization.

22 UNIDENTIFIED MALE: So they are
23 taking that million dollars and they are amortizing
24 it over three years at an interest rate, so their
25 monthly payment is significantly less than what, the

1 balance of the fund.

2 MR. KIMBALL: Yeah, the interest
3 payment is sixty-three thousand dollars or something.

4 UNIDENTIFIED MALE: Did those that
5 were invested in equity not debt portfolios get some
6 kind of monthly statement showing basically that
7 calculation that you just went through so that they
8 had transparency?

9 MR. KIMBALL: Yeah, only the people
10 who had the equity partnerships. The debt holders
11 did not.

12 UNIDENTIFIED MALE: What would, if
13 you were I guess to turn that into kind of an annual
14 return or let's use the million dollar example, what
15 were those people, was it fairly regular amount of
16 dollars they were receiving on a monthly basis or did
17 it really (inaudible)?

18 MR. KIMBALL: It was fairly
19 consistent but it had to (inaudible) a little bit.

20 UNIDENTIFIED MALE: So on a million
21 dollar portfolio, if I had an equity portfolio with
22 you, I'm talking about basically getting forty
23 thousand dollars a month on your behalf or maybe more
24 than that because you're not paying interest on a
25 debt investment.

1 MR. KIMBALL: Theoretically
2 something, somewhere around there.

3 UNIDENTIFIED MALE: On, let's use
4 your hypothetical one more time, I just have one
5 follow up question, so when would you, when would
6 Evergreen, I guess as the owner of the fund assuming
7 this was a debt fund and not an equity fund, when
8 would it pay itself? Would it pay itself on a
9 monthly basis? Would it pay itself on, when the
10 three year, when the note was over --

11 MR. KIMBALL: Just depended on the
12 cash flow.

13 UNIDENTIFIED MALE: There was no set
14 --

15 MR. KIMBALL: There was no schedule.

16 UNIDENTIFIED MALE: Set schedule
17 about how you did disbursements?

18 MR. KIMBALL: No.

19 UNIDENTIFIED MALE: Or I guess
20 distributions would be technically accurate.

21 MR. KIMBALL: No.

22 UNIDENTIFIED MALE: Okay.

23 MR. KIMBALL: I'm going to get a
24 ticket if (inaudible - multiple people talking). If
25 we want to take a break or --

1 UNIDENTIFIED MALE: Did you want to
2 continue it or did you --

3 EDWARD NAZAAR: We will continue it
4 and any continuance will be in junction with you
5 three at Mr. Kimball's schedule. Thank you sir.

6 MR. KIMBALL: Yes.

7 EDWARD NAZAAR: Sorry to meet you
8 under these circumstances.

9 MR. KIMBALL: Hopefully I answered the
10 best that I could.

11 EDWARD NAZAAR: The record should
12 reflect that I (inaudible - noise).

13 MR. KIMBALL: Nice to meet you.

14 EDWARD NAZAAR: Thank you. The
15 record should reflect that I received a check from
16 this (inaudible) and bank account record, the check
17 was in the amount of two thousand three eighty-eight
18 ninety-seven. What was the (inaudible - noise and
19 multiple people talking).

20 (Recording N-49361-004 ended)

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