

UNITED STATES DISTRICT COURT  
NORTHERN DISTRICT OF NEW YORK

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SECURITIES AND EXCHANGE COMMISSION :

*Plaintiff,* :

vs. :

Case No. 1:10-CV-457  
(GLS/DRH)

McGINN, SMITH & CO., INC., :  
McGINN, SMITH ADVISORS, LLC :  
McGINN, SMITH CAPITAL HOLDINGS CORP., :  
FIRST ADVISORY INCOME NOTES, LLC, :  
FIRST EXCELSIOR INCOME NOTES, LLC, :  
FIRST INDEPENDENT INCOME NOTES, LLC, :  
THIRD ALBANY INCOME NOTES, LLC, :  
TIMOTHY M. MCGINN, AND :  
DAVID L. SMITH, GEOFFREY R. SMITH, :  
Individually and as Trustee of the David L. and :  
Lynn A. Smith Irrevocable Trust U/A 8/04/04, :  
LAUREN T. SMITH, and NANCY MCGINN, :

*Defendants,* :

LYNN A. SMITH and :  
NANCY MCGINN, :

*Relief Defendants. and* :

GEOFFREY R. SMITH, Trustee of the :  
David L. and Lynn A. Smith Irrevocable :  
Trust U/A 8/04/04, :

*Intervenor.* :

-----X

**MOTION OF WILLIAM J. BROWN, AS RECEIVER, FOR AN ORDER  
APPROVING SETTLEMENT WITH SECURITY SYSTEMS, INC. WITH  
RESPECT TO MCGINN SMITH FIRSTLINE FUNDING LLC**

William J. Brown, as Receiver (the “Receiver”) for certain of the Defendants and other entities in this action, by his counsel, Phillips Lytle LLP, hereby moves (the “Motion”) for an order (i) approving a settlement with Security Systems, Inc. (“SSI”) with Respect to McGinn Smith Firstline Funding, LLC (“MS Firstline”), and in support thereof, represents as follows:

## **SUMMARY OF MOTION**

The Motion seeks approval of a settlement with a lender to one of the Receivership entities on terms favorable to the estates. The \$1.1 million loan is payable through the transfer of alarm contracts currently owned by the estates through a series of transactions involving entities commonly known as McGinn Smith Firstline. The SEC does not object to the Motion.

## **BACKGROUND**

### **A. General Background**

1. On April 20, 2010, the Securities and Exchange Commission (the “SEC”) filed a Complaint initiating the above-captioned action (the “Complaint”) (Docket No. 1). Also, on April 20, 2010, this Court granted a Temporary Restraining Order (Docket No. 5), which, among other things, froze certain assets of the Defendants and Relief Defendants, and appointed the Receiver as temporary receiver with respect to numerous entities controlled or owned by Defendants Timothy M. McGinn and David L. Smith (collectively, the “MS Entities”). Among the MS Entities is MS Firstline.

2. On July 22, 2010, the Preliminary Injunction Order was entered (Docket No. 96), appointing the Receiver as permanent receiver. The Preliminary Injunction Order authorizes the Receiver to, among other things, “use, lease, sell, and convert into money all assets of the MS Entities, either in public or private sales or other transactions on terms the Receiver reasonably believes based on his own experience and input from his advisors to be most beneficial to the MS Entities and those entitled to the proceeds; ...” (Preliminary Injunction Order, Paragraph VIII(m), Docket No. 96).

**B. Background Relating to MS Firstline**

3. Firstline Security, Inc. (“FSI”), which is unrelated to MS Firstline, previously operated a security alarm business based in Utah. On January 25, 2008, FSI filed a Chapter 11 petition in the United States Bankruptcy Court for the District of Utah (“Bankruptcy Court”).

4. As part of FSI’s bankruptcy case, McGinn Smith Funding, LLC or its assign agreed to purchase (in a Section 363 sale under the Bankruptcy Code) certain FSI assets consisting primarily of alarm contracts (“FSI Purchase”). The sale was approved by the Bankruptcy Court, and the sale closed shortly before the commencement of the Receivership in this action. The transaction involved approximately 6,688 alarm contracts as well as other assets.

5. The MS Entities also had a relationship with FSI prior to FSI’s Chapter 11 bankruptcy case. It began with two loans made to FSI in 2007. Each loan was made by McGinn Smith Funding, LLC to FSI. The May 9, 2007 loan was for \$2,781,250. The monies for this loan were raised through a private placement memorandum providing for senior and junior tranches. The senior tranche Notes were for 40 months paying interest at 9.25% per annum. The junior tranche Notes were for 60 months paying interest at 11.0% per annum. The approximate current principal balances are \$948,263 for the senior tranche and \$1,676,026 for the junior tranche.

6. The second loan was made on October 4, 2007 for \$2,410,000. Again, the funds for this transaction were raised through a private placement memorandum providing for senior and junior tranches. The senior tranche Notes were for 48 months paying interest at 9.50% per annum. The junior tranche Notes were for 60 months paying interest at 11.0% per annum. The approximate principal balances are \$1,125,641 for the senior tranche and \$1,563,331 for the junior tranche.

7. Thus, the total outstanding debt for both loans is approximately \$5,313,261. The loans were to be secured by properly perfected security interests in FSI's alarm contracts and guaranteed by FSI's owners. The Receiver understands that a dispute in the FSI bankruptcy case arose over whether McGinn Smith Funding, LLC had properly perfected its security interest in the FSI alarm contracts. As a means to resolve the dispute, the FSI Purchase was negotiated and resulted in an Asset Purchase Agreement dated December 28, 2009 providing for the purchase of FSI's remaining alarm contract assets at a multiple of 11.49 times the eligible recurring monthly revenue ("RMR") (which is a common industry term) including a credit of \$385,000 for McGinn Smith Funding, LLC to withdraw its two claims in the FSI bankruptcy case based upon the prior loans. At that time, the MS Entities were administering the FSI alarm contracts which served as the collateral for the first two loans. The consequence was that McGinn, Smith Alarm Trading ("Alarm Traders") was managing the billing and customer service of the entire remaining FSI customer base, which at its highest point comprised about 14,000 alarm contracts.

8. The Receiver understands that McGinn Smith Firstline Funding, LLC entered into the FSI Purchase in an attempt to mitigate its prior losses.

**C. Security Systems, Inc.**

9. As part of the FSI Purchase and in order to have sufficient funds to close the FSI Purchase, MS Firstline entered into an agreement with SSI dated as of March 30, 2010, a copy of which is attached as **Exhibit A**. Pursuant to that agreement, SSI provided a bridge loan to MS Firstline in the amount of \$1.1 million bearing interest at a rate of 12% per annum ("Bridge Loan"). Interest on this bridge loan began on May 1, 2010 and was payable on the first day each month thereafter. The Bridge Loan was due and payable no later than December 31, 2010.

10. SSI was also granted a security interest under the Uniform Commercial Code to secure repayment of the Bridge Loan, but SSI did not perfect the security interest by the filing of a financing statement in the appropriate jurisdiction. Exhibit A, paragraph 2.

11. SSI was also granted an option to purchase all of the alarm contracts in certain states with certain credit scores for a purchase price equal to 25 times RMR. Exhibit A, paragraph 3. The purpose appears to have been to provide an alternate means of repaying the Bridge Loan. SSI exercised the option, but the Receiver did not proceed with the transaction pending his investigation of the transaction and determination that the loan was unsecured.

12. The transaction with SSI also required MS Firstline to guarantee to SSI attrition on the alarm contracts as not exceeding 9% per year for two years (“Attrition Guaranty”). The actual attrition on the alarm contracts acquired in the FSI Purchase materially exceeded the 9% attrition rate at that time. Thus, if the Receiver honored the Attrition Guaranty, it would seriously increase the amount needed to repay the Bridge Loan in full to the detriment of the Receivership estates.

13. Consequently, the Trustee proposed a settlement to SSI which has resulted in the following agreement subject to court approval (“Settlement”). The Settlement would convey to SSI the so-called option contracts for a purchase price equal to 25 times RMR. The transfer is in full satisfaction of the Bridge Loan, the Attrition Guaranty is discontinued, and the transfer of the alarm contracts is in full satisfaction of all claims by SSI against the Receivership estates.<sup>1</sup> The Receiver will also release SSI from any claims as to the Bridge Loan and MS Firstline. The terms of the Settlement will be effective as of April 1, 2011 and are set forth in a letter agreement

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<sup>1</sup> SSI has become interested in another transaction which would benefit the Receiver’s estate as well. It involves a loan made by the Receiver’s estate to Integrated Excellence Funding, LLC. Pursuant to the letter agreement attached as **Exhibit B**, SSI will also purchase those alarm contracts held as security by the Receiver in exchange for the repayment of the Integrated Excellence loan in full, which currently has a balance of approximately \$606,636. The Receiver would waive the prepayment premium. The Receiver understands that if this transaction is not concluded, the ability of Integrated Excellence to repay the loan is seriously in doubt, although the Receiver holds a security interest in those alarm contracts.

dated July 27, 2011 attached as Exhibit B. The Receiver accepted the Settlement subject to Court approval on August 5, 2011.

14. The essential terms of the Settlement referenced in the letter agreement attached as Exhibit B are as follows:

a. SSI will settle its claims in exchange for the transfer of good title to all alarm accounts specified in the option but not including non-qualifying and non-performing RMR in the designated seven states. The Attrition Guaranty would be extinguished.

b. Subject to Court approval, the Receiver will transfer title to those accounts to SSI. The Receiver will support the transaction before the Court.

c. Within seven (7) days of court approval, the Receiver shall transfer the alarm contracts pursuant to a Bill of Sale and notify customers as required.

d. The effective date of the transfer shall be April 1, 2011 so that all receipts paid on the specified alarm contracts prior to April 1, 2011 shall be the property of the Receiver's estate, and all receipts paid on those accounts from and after April 1, 2011 less a 35% fee due to Alarm Traders to service the accounts and less sales tax on the proceeds received shall be the property of SSI. Alarm Traders shall account to SSI for all income received and payments made for servicing since April 1, 2011 and shall provide the payment and accounting to SSI at the time of the delivery of the Bill of Sale.

e. As of the closing of the transaction, SSI shall be deemed to have been paid in full for the Bridge Loan and shall have satisfied its claims against MS Firstline and the Receivership estate. The Receiver agrees that any claim he has against SSI and its officers or directors in regard to the Bridge Loan and MS Firstline are released.<sup>2</sup>

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<sup>2</sup> Reference should be made to Exhibit B for the exact terms of the Settlement.

15. The Receiver's analysis indicates that the Receivership estates are benefitted by entering into the Settlement for at least the following reasons

a. The transaction would be effective as of April 1, 2010, and no further interest payments since the last interest payment made to SSI by the Receiver on July 22, 2010 would have to be paid.

b. The attrition guarantee would be negated. The attrition on these contracts has been material.

c. SSI is crediting the estates 25 times RMR, which could be significantly higher than others would pay for the same contracts and has the effect of SSI crediting the estate for approximately \$1.1 million.

d. The Receiver avoids the potential of having to file a bankruptcy petition for MS Firstline in order to reject the SSI option. Likewise, SSI avoids the risk of receiving substantially less in payment than it will receive and also avoids the attendant delay.

16. The Receiver has analyzed that the recovery to creditors of MS Firstline and determined that it is more favorable if the MS Firstline contracts are conveyed to SSI through the Settlement rather than having the Bridge Loan amount repaid out of the pool of MS Firstline recoveries. The primary reason for this is that the multiple credited by SSI for the RMR is an attractive one. The increased value to the Receiver's estates is no less than \$553,132 representing loan interest savings and value retained in the subject alarm contracts.

### **PROPOSED SALE PROCEDURES**

17. Time is of the essence in completing the Settlement. SSI has agreed to the Letter Agreement on the condition that the Settlement be closed within 30 days of the Receiver's acceptance on August 5, 2011. This timetable is necessary because it was an important component of the consideration for the Settlement.

18. As such, the Receiver has requested the Court to schedule a hearing on approximately 13 days notice, although the Preliminary Injunction Order requires only four business days notice. (Preliminary Injunction Order, Paragraph VIII(m), Docket No. 96).

**BASIS FOR RELIEF**

19. The relief requested herein is authorized by the Preliminary Injunction Order and applicable law, and additionally is appropriate because it preserves and enhances the value of MS Firstline.

20. This court clearly has the authority to freeze assets and to permit sales of such assets. That authority authorizes a court in cases such as this to exercise “broad equitable discretion.” S.E.C. v. Fischbach Corp., 133 F.3d 170, 175 (2d Cir. 1997); see also SEC v. Manor Nursing Centers, Inc., 458 F.2d 1082, 1103 (2d Cir. 1972) (explaining the equitable powers granted to the district court and holding that when there is “a showing of a securities law violation, the court possesses the necessary power to fashion an appropriate remedy.”).

21. The Preliminary Injunction Order mandates that the assets be maintained without dissipation of their value. (Preliminary Injunction Order at page 5). Therefore, if the value of an asset is at risk of dissipation so that funds available to investors could be diminished in the event the SEC ultimately obtains a judgment, the Court may act to prevent such dissipation. S.E.C. v. Am. Bd. of Trade, Inc., 830 F.2d 431, 436 (2d Cir. 1987). In addition, the Court also has the power to enter the proposed Order under § 21(d)(5) of the Securities Exchange Act of 1934, which provides that in SEC actions, “the Commission may seek, and any Federal court may grant, any equitable relief that may be appropriate or necessary for the benefit of investors.” See also S.E.C. v. Wencke, 622 F.2d 1363, 1369 (9th Cir. 1980) (“federal courts have inherent equitable authority to issue a variety of ‘ancillary relief’ measures in actions brought by the SEC to enforce the federal securities laws”) (citations omitted).

22. In this case, the settlement will maximize the value of MS Firstline, and, additionally will mitigate the legal and financial risk that the value of MS Firstline further diminish to the detriment of the MS Entities and those entitled to the proceeds.

**MEMORANDUM OF LAW**

23. Since the basis for the relief requested herein under the Permanent Injunction Order and applicable law is set forth herein, the Receiver requests that any requirement for a separate memorandum of law be waived.

**NOTICE OF HEARING**

24. The Receiver will give notice of this Motion by posting the Motion on the Receiver's website ([www.mcginnsmithreceiver.com](http://www.mcginnsmithreceiver.com)) as well as posting at the top of the Receiver's website an explanation of the Motion with the hearing date established by the Court. Notice will also be given by ECF to counsel of record and all parties who have filed notices of appearance, and by e-mail to Messrs. McGinn and Smith.

**HEARING DATE**

25. By separate letter to the Court, the Receiver is requesting that a hearing to consider approval of the Motion be held on August 30, 2011.

**CONCLUSION**

26. As such, for the reasons set forth herein, the Receiver requests the Court to (i) set a hearing date for approval of the Settlement, (ii) approve the Settlement, and (iii) provide such other relief as is necessary and proper.

Dated: August 17, 2011

PHILLIPS LYTTLE LLP

By /s/ William J. Brown  
William J. Brown (Bar Roll #601330)  
Counsel for Receiver  
Omni Plaza  
30 South Pearl Street  
Albany, New York 12207  
Telephone No. (518) 472-1224

and

3400 HSBC Center  
Buffalo, New York 14203  
Telephone No.: (716) 847-8400

Doc # 01-2503252.4

# **Exhibit A**

Rec'd 5/18/10  
WJS

## AGREEMENT

Agreement made as of the 30<sup>TH</sup> day of March, 2010 between McGinn, Smith Firstline Funding, LLC, a New York limited liability company with its principal place of business at 99 Pine Street, 3<sup>rd</sup> Floor, Albany, New York 12207 ("Firstline Funding") and Security Systems, Inc., a Connecticut corporation with its principal place of business at 55 Sebethe Drive, Cromwell, Connecticut ("Security Systems").

### WITNESSETH:

WHEREAS, Firstline Security, Inc., a Utah corporation ("Firstline"), is in the business of providing home security solutions through monitoring and alarm maintenance systems to residential subscribers ("Subscribers") who execute a monitoring contract (the "Monitoring Contract") which obligates the Subscribers to use Firstline's monitoring and alarm services for a pre-determined amount of time and to pay a pre-determined monthly service fee (referred to collectively as Firstline's Recurring Monthly Revenue or "RMR"); and

WHEREAS, in January, 2008 Firstline filed for Chapter 11 bankruptcy protection in the United States Bankruptcy Court for the District of Utah (the "Bankruptcy Court"); and

WHEREAS, on December 29, 2009 Firstline filed a motion with the Bankruptcy Court moving for the entry of an order authorizing the sale by Firstline of certain assets, including its Monitoring Contracts and the related RMR to McGinn, Smith Funding, LLC ("McGinn, Smith"), free and clear of all liens and encumbrances; and

WHEREAS, on February 19, 2010 the Bankruptcy Court issued an Order approving the sale to McGinn, Smith; and

WHEREAS, at the time that McGinn, Smith acquires Firstline's Monitoring Contracts and the related RMR (the "Acquired Assets"), which is anticipated to occur on or about April 6, 2010 (the "Closing Date"), McGinn, Smith will transfer the acquired assets to Firstline Funding; and

WHEREAS, Security Systems has agreed to provide a Bridge Loan (the "Bridge Loan") to Firstline Funding to assist Firstline Funding to acquire the Acquired Assets; and

WHEREAS, Security Systems is desirous of obtaining an option (the "Option") to purchase a portion of the Acquired Assets from Firstline Funding and Firstline Funding is willing to provide the Option to Security Systems.

NOW, THEREFORE, in consideration of the premises and for other good and valuable consideration, the receipt of which the parties acknowledge, it is agreed as follows:

1. Security Systems agrees to provide the Bridge Loan to Firstline Funding on April 5, 2010. The Bridge Loan shall be in the amount of \$1,100,000 and shall bear interest at the rate of 12% per annum. Firstline Funding shall pay interest on the Bridge Loan on May 1, 2010 and on the first day of each consecutive month thereafter. All unpaid principal and accrued interest on the Bridge Loan shall be due and payable by Firstline Funding not later than December 31, 2010.

2. As security for the payment of the Bridge Loan Firstline Funding grants a first security interest to Security Systems pursuant to Article 9 of the Uniform Commercial Code in all Monitoring Contracts and the related RMR acquired from Firstline on the Closing Date involving Subscribers who reside in the States of New York, New Jersey, Pennsylvania, Virginia, North Carolina, Maryland, and Florida (collectively, the "Designated States").
3. Firstline Funding also grants the Option to Security Systems. Pursuant to the Option Security Systems shall have the right to purchase from Firstline Funding all of the Monitoring Contracts and related RMR from those Subscribers who reside in the Designated States and who have a credit score which equals or exceeds 625 (the "Optioned Assets") for a purchase price equal to 25X the RMR being derived from the Optioned Assets on the date of purchase by Security Systems
4. In the event that Security Systems exercises the Option and pays the purchase price McGinn, Smith and Firstline Funding agree that (i) neither will directly or indirectly solicit any Subscribers whose Monitoring Contracts are acquired by Security Systems from Firstline Funding in any of the Designated States or assist, aid or act in concert with any third party to solicit any such Subscribers and that (ii) they will assign to Security Systems the Confidentiality and Non- Solicitation Agreements that they receive from Wright Thurston, John Atkinson and Trevor Keyes on the Closing Date to the extent that they will benefit Security Systems with respect to the Optioned Assets.
5. Security Systems must exercise the Option by giving written notice to Firstline Funding on or before September 30, 2010. The purchase price for the Optioned Assets must be paid by Security Systems within seven (7) days of the date that Security Systems exercises the Option, at which time Firstline Funding shall transfer the Optioned Assets to Security Systems free and clear of all liens and encumbrances.
6. In the event any amounts remain unpaid with respect to the Bridge Loan at the time that Security Systems exercises the Option, the unpaid amount of the Bridge Loan will be applied against the purchase price of the Optioned Assets and the Bridge Loan will be fully satisfied or reduced accordingly.
7. As an inducement to Security Systems to exercise the Option and acquire the Optioned Assets, Firstline Funding will guaranty to Security Systems that attrition relating to the Optioned Assets will not exceed 9% per year for a period of two (2) years from the date that Security Systems acquires the Optioned Assets. In the event that attrition exceeds 9% in either year Firstline Funding, to the extent of such excess, shall pay Security Systems cash in the amount of 25X the amount that the reduction in RMR exceeds 9%.
8. Except as otherwise provided in this Agreement, each party shall be solely responsible for and shall pay all other costs and expenses (including attorney and accounting fees) incurred by it in connection with the negotiation, preparation and performance of and compliance with the terms of this Agreement.
9. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors and assigns. Neither Firstline Funding nor Security

Systems may assign its rights under this Agreement without the prior written consent of the other party hereto.

10. This Agreement embodies the entire agreement and understanding of the parties hereto and supersedes any and all prior agreements, arrangements and understandings relating to the matters provided for herein. No amendment, waiver of compliance with any provision or condition hereof, or consent pursuant to this Agreement shall be effective unless evidenced by an instrument in writing signed by the party against whom enforcement of any waiver, amendment, change, extension or discharge is sought. No failure or delay on the part of Firstline Funding or Security Systems exercising any right or power under this Agreement shall operate as a waiver thereof, nor shall any single or partial exercise of any right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power.
11. If after making computations of time provided for in this Agreement, a time for action or notice falls on Saturday, Sunday or a Federal holiday, then such time shall be extended to the next business day.
12. The construction and performance of this Agreement shall be governed by the laws of the State of New York.
13. In the event of any dispute between the parties to this Agreement, Firstline Funding or Security Systems, as the case may be, shall reimburse the prevailing party for its reasonable attorneys' fees and other costs reasonably incurred in enforcing its rights or exercising its remedies under this Agreement. Such right of reimbursement shall be in addition to any other right or remedy that the prevailing party may have under this Agreement or applicable law.
14. If any term or provision of this Agreement, or the application thereof to any person or circumstance shall, to any extent be held invalid or unenforceable, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each such term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.
15. Except as otherwise provided herein, any notice, demand, or request required or permitted to be given under the provisions of this Agreement shall be in writing, addressed to the following physical and email addresses, or to such other address as any party may request:

If to Firstline Funding:

By mail to:

McGinn, Smith Firstline Funding, LLC  
Timothy M. McGinn, Managing Member  
99 Pine Street, 3<sup>rd</sup> Floor  
Albany, NY 12207

If to Safe Home:

By mail to:

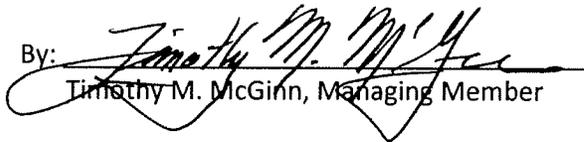
Security Systems, Inc.  
c/o David G. Roman  
55 Sebethe Drive  
Cromwell, CT 06416

Any such notice, demand or request shall be deemed to have been duly delivered and received (a) on the date of personal delivery, or (b) on the date of transmission, if sent by facsimile or email (but only if a hard copy is also sent by overnight courier, or (c) on the date of receipt, if mailed by registered or certified mail, postage prepaid and return receipt requested, or (d) on the date of a signed receipt, if sent by an overnight delivery service, but only if sent in the same manner to all persons entitled to receive notice or a copy.

16. This Agreement may be executed by facsimile and in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

MCGINN, SMITH FIRSTLINE FUNDING, LLC and  
MCGINN, SMITH FUNDING, LLC.

By:   
Timothy M. McGinn, Managing Member

SECURITY SYSTEMS, INC.

By: \_\_\_\_\_  
David G. Roman, President

If to Safe Home:

By mail to:

Security Systems, Inc.  
c/o David G. Roman  
55 Sebethe Drive  
Cromwell, CT 06416

Any such notice, demand or request shall be deemed to have been duly delivered and received (a) on the date of personal delivery, or (b) on the date of transmission, if sent by facsimile or email (but only if a hard copy is also sent by overnight courier, or (c) on the date of receipt, if mailed by registered or certified mail, postage prepaid and return receipt requested, or (d) on the date of a signed receipt, if sent by an overnight delivery service, but only if sent in the same manner to all persons entitled to receive notice or a copy.

16. This Agreement may be executed by facsimile and in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first written above.

MCGINN, SMITH FIRSTLINE FUNDING, LLC and  
MCGINN, SMITH FUNDING, LLC.

By: \_\_\_\_\_  
Timothy M. McGinn, Managing Member

SECURITY SYSTEMS, INC.

By: David G. Roman 4/5/10  
David G. Roman, President

# **Exhibit B**

Fax:

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**Pashman Stein**  
A PROFESSIONAL CORPORATION  
COUNSELLORS AT LAW  
COURT PLAZA SOUTH  
21 MAIN STREET  
HACKENSACK, NEW JERSEY 07601-7054  
(201)486-8200  
  
FAX  
(201)486-6556  
www.pashmanstein.com

July 27, 2011

William J. Brown, Esq.  
Phillips Lytle LLP  
3400 HSBC Center  
Buffalo, NY 14203-2887  
Via Email only to [wbrown@phillipslytle.com](mailto:wbrown@phillipslytle.com)

Re: **McGinn Smith Receivership ("Receivership") and Security Systems, Inc.**

Dear Mr. Brown:

This shall confirm our further discussions to have a simple understanding for the settlement of the claims of my client, Security Systems, Inc., against McGinn Smith Firstline Funding LLC ("Firstline Funding"), one of the Receivership estates, in connection with its asserted loan relating to certain of the Firstline Funding accounts. During our conversation, you stated that you will have to file papers to secure the authority from the Court to sell and transfer assets as we discussed and that would take 2-3 weeks. The following is my understanding of the agreement relating to this settlement transaction:

1. Security Systems, Inc. asserts that it loaned to Firstline Funding purchase money financing in the sum of \$1,100,000 on or about March 30, 2010 (the "Loan") which had an option right as a means to pay the Loan. No interest has been paid on the Loan for several months. Security Systems, Inc. asserts it is a creditor of Firstline Funding, and Security Systems, Inc., will settle its claim in exchange for the transfer of good title to all accounts specified in the option (but

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not including non-qualifying and non-performing RMR in the seven states to be purchased). The guaranty would be extinguished.

2. Subject to securing Court approval as set forth hereafter in your capacity as Receiver of Firstline Funding, you will cause to be transferred to Security Systems, Inc., good and valid title to those accounts. Upon the joint cosigning of this letter by both Security Systems, Inc., and you as set forth below, you shall file papers with the Court to secure Court approval for this transaction. You agree to file the papers within 7 days, and the closing of this transaction is expected to take place within 30 days herefrom, but not later than 7 days after receiving Court approval for this transaction. You agreed to advocate to the Court for approval of this transaction, and you stated that the SEC supports these transaction terms. You shall simultaneously provide my office with a copy of your filed papers when filed with the Court, and you shall promptly provide us with copies of all filed papers you receive from others, in support and in opposition.
3. No later than seven days after the receipt of Court approval for this transaction, you shall provide us with the signed Bill of Sale substantially in the form attached hereto, and arrange for the release to Security Systems, Inc., and delivery as reasonably determined by Security Systems, Inc., of all original customer contracts constituting the specified accounts, together with all customer folders, all panel lockout codes, all customer ACH/EFT information and all customer accounts receivable information for same. You shall direct the Alarm Traders staff to also notify all third parties performing monitoring for these Firstline Funding group of accounts that the ownership of the accounts has been transferred to Security Systems, Inc. The release of all documents described above to Security Systems, Inc., shall be made by Firstline Funding on or before seven days from the receipt of Court approval, time being of the essence.
4. The effective date of this transfer shall be April 1, 2011, so that all receipts paid on the Firstline Funding group of accounts prior to April 1, 2011, shall be the property of the Firstline Funding estate, and all receipts paid on those accounts from and after April 1, 2011, less the 35% all inclusive fees paid to Alarm Traders to service those accounts, shall be the property of Security Systems, Inc. Since the Firstline Funding estate has received the income from these accounts since April 1, 2011, the Firstline Funding estate shall account to Security Systems, Inc., for all income received and payments made for servicing since April 1, 2011, and shall provide this payment and accounting to Security Systems, Inc., together with the Bill of Sale for this transaction.
5. As of the closing of this transfer of accounts to Security Systems, Inc., Security Systems, Inc., shall be deemed to have been paid in full for the Loan, and shall

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have satisfied its claims against the Firstline Funding and the Receivership. As a result of this transfer of accounts, the Receivership shall have satisfied any claims it may have against Security Systems, Inc., and/or its officers or directors in regard to the Loan and Firstline Funding.

If the above accurately sets forth all terms and provisions of the intended agreement between our clients, kindly confirm same and fax me back a signed copy of this letter. I will hold your signed copy in escrow pending the counterpart signature of this letter by my client, in which event the two separately signed versions shall form the final binding agreement. I note that my client has not yet reviewed and approved this letter either and that it remains subject to its approval/comment as well.

Please do not hesitate to call me with any questions or comments in this regard.

Very truly yours,

*Bruce J. Ackerman*

Bruce J. Ackerman

#BJA/shc

cc: Security Systems, Inc. (via email)

**AGREED:**

McGinn Smith FirstLine Funding, LLC

By: *William J. Brown, Receiver*  
William J. Brown, Receiver

**SECURITY SYSTEMS, INC.**

By: *David G. Roman*  
David G. Roman

**BILL OF SALE**

KNOW ALL MEN BY THESE PRESENT that the undersigned, as the Court-appointed receiver of the McGinn Smith & Co., Inc. and related companies, including McGinn Smith FirstLine Funding, LLC (the "Seller"), for and in consideration of the purchase price set forth in the Letter Agreement dated today between the Seller and Security Systems, Inc., (the "Purchaser"), and other good and valuable consideration paid to it by the Purchaser, having offices at 55 Sebethe Drive, Cromwell, Connecticut 06416, the receipt of which is hereby acknowledged by Seller, hereby grants, bargains, sells, conveys, transfers and sets over unto Purchaser, its successors and assigns, all of Seller's rights, title and interests in and to the monitoring accounts and related documents described on Schedule "A" attached hereto and made a part hereof (the 'Assets').

All the terms, covenants and conditions herein contained shall be for and shall inure to the benefit of and shall bind the respective parties hereto, and their legal representatives, successors and assigns, respectively.

IN WITNESS WHEREOF, Seller has caused the Bill of Sale to be duly executed in its name the day and year set forth below.

McGinn Smith FirstLine Funding, LLC ("Seller")

Address: 3400 HSBC Center  
Buffalo, NY 14203

By: \_\_\_\_\_  
William J. Brown, Receiver

Dated: July , 2011