

## CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

**\$1,000,000****PACIFIC TRUST 02****MAXIMUM OFFERING \$1,000,000 CONTRACT CERTIFICATES****MINIMUM OFFERING \$50,000 CONTRACT CERTIFICATES****SEVENTY TWO MONTHS: 6.0 %**

**PACIFIC TRUST 02** (the "Trust Fund") is hereby offering \$1,000,000 of Contract Certificates, entitled to interest at the rate of 6.0% per annum (the "Certificates"). Principal and interest on the Certificates will be payable in monthly installments with interest only commencing on June 1, 2002, and principal and interest commencing on December 1, 2006. See "Description of the Certificates and the Trust Agreement".

The Certificates will be issued and registered in the names of the purchasing Certificateholders. Interests in the Certificates will be shown on, and transfers thereof will be effected through, records maintained by the Trustee under the Trust Agreement. See "Description of the Certificates and the Trust Agreement."

Price of Certificates 100%

See "Risk Factors" for a discussion of certain risks that should be considered by prospective purchasers of the Certificates offered hereby.

THESE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to the Public	Underwriting Discount	Proceeds to the Trust Fund
	100%	10.0%	90%
Minimum Offering	\$50,000	\$5,000	\$45,000
Maximum Offering	\$1,000,000	\$100,000	\$900,000

The date of this Memorandum is April 10, 2002

**MCGINN, SMITH & CO., INC.**  
**Capital Center • 99 Pine Street**  
**Albany, New York 12207**

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The Offering of Certificates will terminate on July 18, 2002, unless the Minimum Amount of Certificates are sold prior to that date. All subscriptions will be held in an escrow account (the "Escrow Account") at Charter One Bank, FSB (the "Escrow Agent") or such other financial institution as may be selected by the Trust Fund in the event that the Escrow Agent is unable or unwilling to serve. Interest will be earned on funds held in the Escrow Account commencing three days after the funds are deposited until the earlier of the termination of this Offering or the investment of such funds in Certificates. During the period that an investor's funds are held in the Escrow Account, he will not be a Certificateholder of the Trust Fund. An investor's funds will not be held in the Escrow Account more than two months before being invested in the Certificates, with Escrow Agent fees being deducted from escrow interest payable to investors. See "Terms of the Offering".

The Trust Fund will furnish to investors certain reports, financial statements and tax information. See "Description of the Certificates and the Trust Agreement - Reports".

### **WHO MAY INVEST**

The Certificates will be offered only to accredited investors as that term is defined under Regulation D promulgated under the Act ("Accredited Investors"). The Sales Agent may, however, offer and sell Certificates to 35 or fewer non-accredited investors. With certain exceptions (primarily with respect to institutional investors) an Accredited Investor is an individual who (i) has a net worth (along and together with the Investor's spouse) in excess of \$1,000,000 or (ii) has had gross income in excess of \$200,000 in each of the past two years or joint income with that person's spouse in excess of \$300,000 in each of those years and reasonably expects gross income at the same level in the current year. Corporations, partnerships and other entities will be considered Accredited Investors if each of its beneficial owners individually qualify as Accredited Investors, or if such entity has total assets in excess of \$5 million. Prospective investors to be admitted as Accredited Investors will be required to represent that they satisfy the requirements of an Accredited Investor. See "Suitability".

The Certificates offered hereby are suitable only for those investors whose business and investment experience makes them capable of evaluating the merits and risks of their prospective investment in the Certificates, who can afford to bear the economic risk of their investment for an indefinite period of time and have no need for liquidity in this investment. Each investor will be required to represent in the Subscription Agreement that he is acquiring the Certificates for his own account as principal for investment, and not with a view to resale or distribution, and that he is aware that (a) his transfer rights are restricted; and (b) that the Certificates have not been registered under the Securities Act of 1933, as amended, and therefore, cannot be resold unless they are so registered or unless exemption from registration is available with respect to such transaction. (See "Suitability".) Since there can be no assurance that the Contracts will generate sufficient income Necessary to pay the Certificates, investment in the Certificates is suited for persons who have substantial income from other sources. See "Risk Factors".

The Trust Fund may require prospective investors to complete a questionnaire relating to the suitability of the investment for them, and may make or cause to be made such further inquiry as it deems appropriate. The Trust Fund and Sales Agent will collectively have the sole discretion regarding sale of the Certificates to any prospective investor. The Trust Fund and Sales Agent reserve the right to reject any subscription for any reason and to allocate to any investor a smaller amount of Certificates, or fractions thereof, than that for which he has subscribed. See "Suitability".

## SUMMARY OF THE OFFERING

The following summary is qualified in its entirety by the detailed information appearing elsewhere in this Memorandum and the exhibits attached to the Memorandum.

### **The Trust Fund**

Pacific Trust 02 (the "Trust Fund") is a common law trust formed under the laws of the State of New York on April 8, 2002. The Trustee of the Trust Fund is McGinn, Smith & Co., Inc., a New York Corporation. The Trustee will have no liability in connection with the Certificates or the affairs of the Trust Fund in the absence of willful misconduct or gross negligence. Although Certificateholders will have recourse to all assets of the Trust Fund, the Portfolios of Contracts acquired with the proceeds of this Offering will be the Trust Fund's only asset. See "Risk Factors", "The Trust Fund" and "Disclaimer of Liability of Trustee."

The sole business activity of the Trust Fund will be to acquire the portfolio of contracts (the "Contracts"), consisting of payment rights in exchange for the provision of electronic security monitoring services for security alarm systems in residential homes ("Residential Monitoring Contracts"). Security monitoring is the process of notifying designated parties (either individuals or public authorities) if an unauthorized entry, fire, medical or other emergency signal from a customer alarm system is received at a central monitoring station.

The Trust Fund will acquire a portfolio of Contracts (the "Portfolio") consisting of Contracts acquired by Palisades Group, LLC, a New York limited liability company ("Palisades"), and originated by various security alarm dealers ("Security Alarm Dealers").

The Trust Fund will enter into a Monitoring Receivable Financing Participation Agreement (the "Participation Agreement") for acquisition of the Portfolio. The Portfolio of Contracts consists of the monthly scheduled cash flow received from the Portfolio of Contracts as set forth on Exhibit B to the Participation Agreement.

The Trust Fund intends to apply the entire net proceeds of the Offering to the purchase of the Portfolio of Contracts. The Contracts in the Portfolio to be purchased will require the subscriber to make monthly or quarterly payments for a term up to sixty months (the "Mandatory Period"). See "Use of Proceeds", "The Trust Fund" and "Portfolio Acquisition and Monitoring."

As the owner of the Portfolio, the Trust Fund will receive a scheduled amount of payments from subscribers for monitoring services provided to them by Palisades. See "Portfolio Acquisition and Monitoring". For more detailed information concerning the proposed business activity of the Trust Fund, see "The Trust Fund - Business of the Trust Fund."

### **Risk Factors**

In evaluating this Offering, prospective investors should consider carefully, among others, the following risk factors:

- No assurance that the Certificates will be paid;
- No market for resale of Certificates;
- Illiquid collateral;
- Potential for Contract defaults.

See "Risk Factors" and "Conflicts of Interest."

### **Description of the Certificates and the Trust Agreement**

The Certificates will be issued under a Declaration of Trust by McGinn, Smith & Co., Inc., the Trustee. The Certificates will be available for purchase in denominations of \$50,000.00 and increments of \$25,000.00. The Certificates will be registered in the name of the individual Certificateholders. See "Description of the Trust Agreement and the Certificates."

The Certificates will bear interest at a per annum rate of 6.0%. Interest will accrue commencing on the Closing Date for the purchase of such Certificate and will be payable to Certificateholders monthly on the first day of each month commencing June 1, 2002. Principal and interest on the Certificates will be payable in monthly installments commencing on December 1, 2006 to and including May 1, 2008, in accordance with Exhibit B of the "Participation Agreement" set forth in "Exhibit D".

### **Compensation and Fees**

McGinn, Smith Acceptance Corp., an affiliate of McGinn Smith & Co., the Sales Agent, will be paid a brokerage fee in connection with the acquisition of the Portfolio by the Trust Fund. See "Compensation and Fees" and "Conflicts of Interest."

### **Uses of Proceeds**

The net proceeds from the Offering of the Certificates will be used to purchase the Portfolio of Contracts. See "Use of Proceeds" and "Portfolio Acquisition and Monitoring".

### **Income Tax Considerations**

The Certificates will be treated as indebtedness of the Trust Fund for federal income tax purposes. Each Certificateholder will generally be required to report interest income on a Certificate in accordance with such Certificateholder's method of accounting. Each prospective investor should consult with his or her own tax advisor with respect to the tax consequences of the acquisition, ownership and disposition of the Certificates.

## **RISK FACTORS**

In evaluating this Offering, prospective investors should consider carefully all of the information contained in this Memorandum and, in particular, the factors discussed below. The following summary is not intended to state in full or replace portions of this Memorandum that discuss these factors and others in greater depth. Although the risk factors are intended to be presented in order of their materiality to investors, such order may not be indicative of their relative importance to any particular investor.

### **Limitation of Transfer of Certificates**

The Certificates may not be offered for resale to any person without the consent of the Trust Fund. Prior to this offering, there has been no market for the Certificates of the Trust Fund. Each investor will be required to represent that his purchase of the Certificates will be for investment only and not with a view towards the resale or distribution thereof. A Certificateholder will not have any right to sell, transfer, exchange or otherwise dispose of his Certificates, or to cause a security interest to be created therein, unless the Trust Fund has received evidence satisfactory to it that such disposition or creation of a security interest is not

in violation of federal or state securities laws. The Certificates have not been registered or qualified under the Securities Act of 1933 or applicable state securities laws and may not be sold or transferred without such registration or qualification or an exemption therefrom.

#### **Limited Liquidity of Collateral**

In the event of a default under the Certificates which necessitates a liquidation of the Portfolio of Contracts, the ability of the Trustee to sell the Collateral may be restricted since it is anticipated that there will be a limited market for the Contracts. In that event, the Trustee may have to wait for the Contracts to mature.

#### **Potential for Contract Defaults**

Defaults by subscribers under Contracts may result in reduced scheduled cash flow to the Trust Fund. Defaults may occur for a variety of reasons, including relocation of subscribers, dissatisfaction with service, defaults by monitoring companies, and changes in economic conditions. Palisades will represent that each Contract will legally obligate the subscriber to pay for monitoring services for the Mandatory Period. Nevertheless, should the level of Contract defaults exceed that anticipated, the ability of the Trust Fund to pay the Certificates will be adversely affected. See "Portfolio Acquisition and Monitoring."

#### **No Assurance as to Financial Worthiness or Capabilities of Palisades**

The Trust Fund will use the entire proceeds of this Offering to purchase the Portfolio of Contracts which require subscribers to pay fees for a Mandatory Period in exchange for monitoring services. In the event that Palisades does not meet its obligations under the Contracts, it is likely that the affected subscribers will cancel the Contracts and refuse to pay, either in whole or in part, the fees due and owing thereunder. Furthermore, because the Monitoring Recourse Obligation to repurchase or replace non-performing Contracts depends on the financial capability of Palisades, the ability of the Trust Fund to pay the principal of and interest on the Certificates can be adversely affected by the failure or weakened financial position of Palisades.

#### **No Independent Counsel to Investors**

No independent counsel has been retained to represent the interests of the Certificateholders. Each investor is therefore urged to consult with his own counsel regarding the terms and provisions of the Certificates and all other documents relating to this offering.

#### **Lack of Financial Statements**

This Memorandum does not include financial statements for the Trust Fund. The Trust Fund is newly formed for the limited purpose of acquiring the Portfolio of Contracts.

#### **Mandatory Term of the Residential Monitoring Contracts May Be Less Than Term of Monthly Scheduled Cash Flow**

The Residential Monitoring Contracts in the Portfolio to be acquired from Palisades with the proceeds of the Certificates may not be terminated by the subscriber for a Mandatory Period of up to sixty months. The Trust Fund is acquiring the Portfolio of Contracts which is the monthly scheduled cash flow received from the Portfolio of Contracts over a period of seventy-two months. Although the Contracts automatically renew unless canceled by the subscriber in writing, some of the subscribers may elect to cancel their Contracts, thereby affecting the

monthly amount of Cash Flow received from the Portfolio of Contracts. Nevertheless, Palisades has an obligation to repurchase or substitute a performing Contract of equal value for a non-performing or canceled Contract (the "Monitoring Recourse Obligation").

#### **Availability of the Residential Monitoring Contracts**

The portfolio of contracts is comprised of Residential Monitoring Contracts to be acquired by Palisades from various Security Alarm Dealers doing business in different geographic locations. The time at which these Residential Monitoring Contracts are acquired from each Security Alarm Dealer may vary. At the time the entire Offering is subscribed for, only the amount of Offering Proceeds necessary to acquire the available Residential Monitoring Contracts will be released from escrow. The remainder of the Offering Proceeds will continue to be held in escrow until such time as the additional Residential Monitoring Contracts comprising the balance of the Portfolio are available for financing. In the event there is a substantial delay in acquiring the total amount of Residential Monitoring Contracts comprising the Portfolio, there may be a shortfall in the monthly amount of Cash Flow received from the Portfolio and the Trust Fund's ability to pay the Certificates will be adversely affected. See "Use of Proceeds".

#### **No Tax Opinion**

The Trust Fund has not obtained an independent tax opinion with regard to this offering of Certificates. Each potential investor is encouraged to seek his own tax advisor with respect to his personal tax situation and the tax consequences of the acquisition, ownership and disposition of the Certificates.

#### **Conflicts of Interest**

The Trust Fund will purchase the Portfolio of Contracts through McGinn, Smith Acceptance Corp., an affiliate of the Trustee. McGinn, Smith Acceptance Corp. will receive a broker's fee in connection with such transaction. The close relationship between McGinn, Smith Acceptance Corp. and McGinn, Smith & Co., Inc. may affect the price paid for the Portfolio of Contracts. Although there is no specified formula for determining the purchase price, and Certificateholders will not have a voice in the amount paid by the Trust Fund, the Trustee will purchase the Portfolio of Contracts only when McGinn, Smith Acceptance Corp. represents to the Trustee, that the price of such Portfolio will allow the Trust Fund to pay its operating expenses and discharge its obligations with respect to the Certificates. In addition, the Trustee's liability is limited. See Section entitled "Disclaimer of Liability of Trustee". McGinn, Smith & Co., Inc. will receive an Underwriting Discount equal to ten (10%) of the gross proceeds of the Offering.

### **USE OF PROCEEDS**

The net proceeds to the Trust Fund from the sale of the Certificates offered hereby, after deducting the Underwriting Discount, will be approximately \$900,000 (90% of gross proceeds) if the Maximum Offering for the Certificates is achieved. The Trust Fund intends to use all of the net proceeds of the Offering to purchase the Portfolio of Contracts.

The net proceeds to the Trust Fund from the sale of the Certificates offered hereby, after deducting the Underwriting Discount, will be approximately \$45,000 (90% of gross proceeds) if



the Minimum Offering for the Certificates is achieved. The Trust Fund intends to use all of the net proceeds of the Offering to purchase five percent (5%) of the Portfolio of Contracts.

The Residential Monitoring Contracts comprising the Portfolio are to be acquired by Palisades from various Security Alarm Dealers doing business in various geographic locations. The time at which all of the Residential Monitoring Contracts are acquired by Palisades may vary.

At the time the entire Offering is subscribed for, only the funds necessary to finance the available Residential Monitoring Contracts will be released from escrow. The remainder of the Offering Proceeds will be held in escrow until such time as the additional Residential Monitoring Contracts comprising the balance of the Portfolio are available for financing. McGinn, Smith Acceptance Corp., the Portfolio Financial Manager, anticipates that all of the Residential Monitoring Contracts comprising the Portfolio will be available for financing within three (3) months of the time in which the entire Offering is subscribed for.

### **THE TRUST FUND**

The Trust Fund is a common law trust formed under the laws of the State of New York on April 8, 2002. The principal executive office of the Trust Fund is located at c/o McGinn, Smith & Co., Inc., Trustee, Capital Center, 99 Pine Street, Albany, NY 12207, and its telephone number is (518) 449-5131. McGinn, Smith & Co., Inc. is the Trustee of the Trust Fund. The owners of all issued and outstanding common stock of the Trustee are Timothy M. McGinn (50%) and David L. Smith (50%). McGinn, Smith & Co., Inc. is also the Sales Agent for the Offering. McGinn, Smith Acceptance Corp. will receive a broker's fee in connection with the purchase of the Portfolio of Contracts by the Trust Fund. McGinn, Smith Acceptance Corp. is an affiliate of the Sales Agent.

#### **Business of the Trust Fund**

The Trust Fund has been formed solely for the acquisition of the Portfolio of Contracts to be acquired from Palisades. Subsequent to the Closing Date the Trust Fund will utilize the net proceeds from the Offering to acquire the Portfolio. In addition, the Trust Fund will continue to acquire New Contracts from Palisades on a monthly basis from the excess cash flow generated from the Contracts, after the interest on the Certificates has been paid.

Each Contract in the Portfolio to be acquired will include the obligation of Palisades to provide central station monitoring services for the subscriber in consideration for the subscriber's payment of a monthly or quarterly monitoring fee. The Trust Fund does not intend to acquire equity interests in monitoring companies or other security alarm monitoring or installation firms; rather, a scheduled amount of cash flow from the Contracts owned by Palisades will be acquired by the Trust Fund through McGinn, Smith Acceptance Corp.. Palisades will perform the monitoring and other services required under the Contracts.

#### **The Security Alarm Industry**

The security alarm industry involves (i) manufacturers of alarm system components, (ii) wholesalers who distribute such components, (iii) parties that sell or lease, install and maintain

security alarm systems, and (iv) parties that monitor security alarm signals. Sales, leasing, installation, maintenance and monitoring overlap significantly. Within each geographic market, many companies sell or lease, install, maintain, and monitor systems. Larger local and regional full service firms and national companies with branch offices, as well as numerous regional and local security companies, also may be present in each geographic market.

Monitoring Companies in the security alarm industry typically sell or lease, maintain, monitor and service alarm equipment (directly through their own facilities or indirectly through a contractual relationship with a third party) installed with their subscribers. Generally, the monitoring company and the subscriber enter into a monitoring agreement with respect to the security alarm system when the equipment is installed. The typical monitoring agreement provides that the monitoring company will monitor the system 24 hours per day for a specified fee, payable monthly or quarterly in advance. The monitoring agreement, either a contract or a lease, will typically require the subscriber to pay for monitoring and other services over a specified mandatory period of months, usually 24 to 60 months, at a specified cost per month, usually between \$20.00-\$60.00 per month. Such agreements may also provide that title to the monitoring system equipment during the Mandatory Period remains with the monitoring company.

The Contracts in the Portfolio to be acquired from Palisades with the proceeds of the Certificates will not be terminable by the subscriber for a specified Mandatory Period of up to sixty months from the day of system installation. The Contracts will automatically renew for one year periods unless canceled by the subscriber upon thirty days prior written notice to Palisades. Accordingly, the Contracts may continue in effect after the end of the Mandatory Period, subject to the subscriber's right to terminate, and the Trust Fund will purchase the right to receive payments under Contracts for seventy-two months. At the end of seventy-two months, if Palisades have complied with all of its obligations under the agreement pursuant to which the Trust Fund intends to acquire the Contracts (the "Monitoring Receivable Financing Agreement"), the Contracts are returned to Palisades.

The Contracts may provide that the Monitoring Company is not responsible for interruption of monitoring services due to conditions or circumstances beyond its control, and may include a limitation of liability provision which specifies that the Monitoring Company is not to be considered an insurer of the system and that the system or service supplied will not avert or prevent occurrences or the consequences therefrom which the system or service is designed to detect. These clauses typically specify that the Monitoring Company's liability is limited to an amount equal to a percentage of the annual service charge or a fixed dollar amount, whichever is greater, in the event of a failure of the system or service. However, there can be no assurance that such clauses will be given full force and effect by a court of law.

### **Security Alarm Competition**

The security alarm business is highly competitive and includes large national and regional companies, as well as small local dealers/installers. Competition is based on the cost of providing a given service and the quality of the service. During recent years, consolidation has occurred in the industry, partially as a result of companies realizing that monitoring cost are relatively fixed and profits can be increased directly by increasing the number of Contracts monitored. It is anticipated that this industry consolidation will continue. These competitors

include national companies which are currently or may become vertically integrated to the point of generating their own Contracts by selling the installation of security alarm systems.

## **PORTFOLIO ACQUISITION AND MONITORING**

### **Acquisition of Portfolio**

The Trust Fund intends to apply the net proceeds of the Offering, \$900,000, to the purchase of a Portfolio of Contracts. The Trust Fund will acquire the Monitoring Revenue Payment (the "Scheduled Amount") generated from the Residential Monitoring Contracts to be acquired by Palisades from the Security Alarm Dealers. The Residential Monitoring Contracts from Palisades comprise the "Portfolio". McGinn, Smith Acceptance Corp., an affiliate of the Sales Agent, will receive a broker's fee in connection with the Trust Fund's purchase of the Portfolio. The Portfolio will be acquired upon the terms and conditions set forth in the Monitoring Receivable Financing Agreement, subject to payment of the McGinn, Smith Acceptance Corp. broker's fee.

The Portfolio will include Contracts that meet the acquisition criteria specified in the Monitoring Receivable Financing Agreement discussed below. See the form of "Monitoring Receivable Financing Agreement". These criteria include certain credit standards for subscribers, and standards governing the terms and conditions of Contracts to be purchased. Palisades is required to make appropriate representations that the Contracts conform to the requirements set forth in the Monitoring Receivable Financing Agreement. See "Monitoring Receivable Financing Agreement," below.

The Trust Fund will continue to acquire New Contracts on a monthly basis from the excess cash flow received from the Contracts, after interest on the Certificates has been paid. See "The Collection Process" below.

### **Monitoring Receivable Financing Agreement**

McGinn, Smith Acceptance Corp. will enter into agreements (the "Monitoring Receivable Financing Agreement") with Palisades which specify the terms and conditions under which the Contracts will be acquired from Palisades.

In the Monitoring Receivable Financing Agreement, Palisades covenants, represents, and/or warrants to McGinn, Smith Acceptance Corp., its successors and assigns, among other things, that: (a) all Contracts will be valid mandatory deferred payment obligations covering the monitoring services to be provided to the subscriber, which Palisades have a legal right to sell, assign and transfer; (b) the Contracts are not subject to any disputes, offsets or counterclaims; (c) the subscriber is neither delinquent in payment nor in default under the Contract at the time of the financing; (d) Palisades has performed, except for future obligations, all of its obligations to the subscriber; (e) the information contained in the Contract is true in all respects; (f) McGinn, Smith Acceptance Corp., its successors and assigns will have absolute right to the Scheduled Amounts of the Monitoring Revenue Payment generated from the Contracts, and the Contracts are not subject to any prior assignments or security interests; (g) the Contracts and the underlying transaction giving rise to the Contracts do not violate any law, rule or regulation; and (h) Palisades and the subscriber will not modify the Contract. McGinn, Smith Acceptance Corp., its successors and assigns, must approve the form of each Contract and the terms and conditions thereof.

McGinn, Smith Acceptance Corp. will assign all of its right, title and interest in and to the Monitoring Receivable Financing Agreement to the Trust Fund.

McGinn, Smith Acceptance Corp., its successors and assigns do not assume any obligations or liabilities of Palisades in connection with the Contracts, including any monitoring duties and responsibilities. Palisades will indemnify and hold McGinn, Smith Acceptance Corp., its successors and assigns, harmless from and against any claim, suit, loss, liability or expense incurred by McGinn, Smith Acceptance Corp., its successors and assigns, in connection with the Contracts.

Palisades will direct the subscribers under the Contracts to remit all payments to a pre-designated remittance call box servicer. Preferred Data, Inc., a New York Corporation, ("Preferred") will act as such a servicer. Palisades will also agree not to accept any payment made by a subscriber and to refer all such payments to Preferred. Palisades will be required to prudently and effectively pursue the collection of all delinquent payments due to the Trust Fund immediately upon receipt of appropriate payment advice reports from Preferred. Palisades will provide the Trust Fund with monthly status reports on all purchased Contracts, reflecting current payment status, delinquency and unpaid balances due and owing. See the "Lock Box Agreement" below.

Under the Monitoring Receivable Financing Agreement, McGinn, Smith Acceptance Corp., its successors or assigns, may require Palisades to repurchase a Contract, or substitute a performing Contract in place of a non-performing Contract, upon the occurrence of (a) a subscriber's failure to make two (2) consecutive monthly monitoring service payments; (b) the failure of Palisades to perform any of its obligations under the Monitoring Receivable Financing Agreement or a Contract; or (c) the breach of any warranty or representation by Palisades under the Monitoring Receivable Financing Agreement or a Contract (such repurchase or substitution obligation being referred to herein as the "Monitoring Recourse Obligation").

Palisades may elect to utilize the services of an independent, third party Central Station to perform the monitoring services due to Subscribers under the Contracts. The Trust Fund shall be a third party beneficiary to any monitoring service contract executed between Palisades and any independent Central Station. Palisades and/or the Central Station will agree to perform all monitoring services under the Contracts in accordance with generally accepted industry practices, and Palisades or the Central Station shall, in all respects, service, bill, perform collection efforts and enforce the Trust Fund's contractual right to receive the Scheduled Amounts of the Monitoring Revenue Stream associated with each Contract.

In the event Palisades or the Central Station are unable to perform their monitoring duties and responsibilities to the Subscribers (collectively) or to the Trust Fund, as the alarm monitoring servicer of the Subscribers (collectively) security systems under the Contracts, they will immediately notify the Trust Fund of such fact and will promptly arrange for the orderly transfer of monitoring services to a third party alarm monitoring service company selected in the sole discretion of the Trust Fund. The Trust Fund shall have the right to unilaterally demand and effect the immediate transfer of monitoring services on Contracts from Palisades or the Central Station to a third party monitoring service company, with the complete

cooperation of Palisades and/or the Central Station, upon the happening of any of the following events:

- A) The filing of a petition of bankruptcy protection with respect to any business of Palisades or the Central Station, either voluntary or involuntary;
- B) Palisades or the Central Station, or any of their principal officers being found guilty of any felony or upon the finding of liability in any criminal or civil action involving impropriety in business dealings or operations which, in either case materially affects the operation of Palisades or the Central Station, or the performance of the Contracts;
- C) The abandonment of monitoring service operations by Palisades or the Central Station.
- D) The occurrence of a material default under the Monitoring Receivable Financing Agreement, which results in the inability of Palisades or the Central Station to substantially perform under the Monitoring Receivable Financing Agreement, or any Central Station agreement, or the failure of Palisades to, or inability to perform under the recourse (repurchase or replacement) provisions of the Monitoring Receivable Financing Agreement.

Palisades is also obligated to maintain comprehensive general liability insurance, including errors and omissions on monitoring operations, in the minimum amount of \$1,000,000 covering bodily injury and property damage resulting from the performance of monitoring operations under the Contracts. In the event of a sale or transfer of a controlling interest in Palisades, Palisades must guarantee that its obligations under the Monitoring Receivable Financing Agreement shall not be impaired or disrupted by such sale or transfer and that the Monitoring Receivable Financing Agreement shall continue in effect and be accepted by the purchaser or transferee of such controlling interest.

Palisades irrevocably and unconditionally will guarantee to the Trust Fund the full and timely payment of all sums constituting the Scheduled Amounts of the Monitoring Revenue Payments which are due and owing under the Contracts in the Portfolio.

#### **Monitoring Receivable Financing Participation Agreement**

The Trust Fund and McGinn, Smith Acceptance Corp. will enter into a Monitoring Receivable Financing Participation Agreement (the "Participation Agreement") which will outline the rights of the Trust Fund in connection with the acquisition of the Portfolio of Contracts.

McGinn, Smith Acceptance Corp., as the Portfolio Financial Manager, will covenant that it has inspected all Contracts in the Portfolio and reviewed them for creditworthiness pursuant to the credit standards and procedures set forth in the Monitoring Receivable Financing Agreement discussed above. In addition, McGinn, Smith Acceptance Corp., as the Portfolio Financial Manager, will perform a due diligence review of Palisades so as to insure its capabilities of performing in accordance with the terms of the Monitoring Receivable Financing Agreement.

All Contracts in the Portfolio shall be held by McGinn, Smith Acceptance Corp. for the benefit of the Trust Fund, accompanied by the original Contract Obligation Instrument and all other original documents executed by the Subscriber.

The Trust Fund will be provided a yield on the Portfolio of Contracts of 6.0%. The Trust Fund will fund \$900,000 for the Portfolio of Contracts if the Maximum Offering is achieved. If the Minimum Offering is achieved, the Trust Fund will fund \$45,000 for 5% of the Portfolio of Contracts.

The Trust Fund will be entitled to the monthly scheduled cash flow ("Scheduled Cash Flow") received from the Portfolio of Contracts as set forth on Exhibits B to the Participation Agreement.

The Participation Agreement provides that the Trust Fund will receive the Scheduled Amounts due from the Portfolio of Contracts each month. The Trust Fund shall be entitled to the Scheduled Cash Flow as set forth on Exhibit "B" to the Participation Agreement on the 1st day of each month commencing June 1, 2002. In the event the collected payments from the Portfolio of Contracts for any month are less than the Scheduled Cash Flow due the Trust Fund for that month, any shortfall for that month will be paid out of the first payments received in the following month. Any Scheduled Amounts not received by the Trust Fund in the month when due shall bear interest at the rate of 15% per annum until paid. Thereafter, the Scheduled Amount due the Trust Fund for that month shall be paid from the balance of the Contract payments received that month from Preferred. Any funds remaining shall be used by the Trust Fund to acquire New Contracts from Palisades to generate additional Scheduled Cash Flow.

Upon receipt by the Trust Fund of all Scheduled Cash Flow, all of the Trust Fund's right, title and interest in the Portfolio of Contracts shall terminate and the Contracts shall be transferred by the Trust Fund to Palisades without recourse and without warranty. See "The Collection Process" below.

#### **The Collection Process**

McGinn, Smith Acceptance Corp. and Preferred intend to enter into a remittance processing agreement (the "Lock Box Agreement") pursuant to which payments made under the Contracts by subscribers are forwarded to Preferred. Prior to the purchase of Contracts by the Trust Fund, Preferred will open a lock box at a U.S. Postal Service General Mail Facility, which will serve as a receptacle for the receipt of payments from Contract subscribers. During each business day the contents of the lock box will be picked up by Preferred. All payments will be sorted and subsequently deposited, on a daily basis, into an account established by and in the name of the Trust Fund (the "Portfolio Depository Account") at Charter One Bank, FSB. Palisades will have no right, title or interest in, or any right to withdraw any amounts held in the Portfolio Depository Account. McGinn, Smith Acceptance Corp. will be responsible for any fees charged or imposed by Preferred.

Out of the funds held in the Portfolio Depository Account, McGinn, Smith Acceptance Corp. will transfer to the Trust Fund the Scheduled Cash Flow the Trust Fund is entitled to pursuant to Exhibit B to the Participation Agreement. The Trust Fund will then pay the Certificateholders their percentage of the Scheduled Cash Flow to which they are entitled.



## DESCRIPTION OF TRUST AGREEMENT AND THE CERTIFICATES

On April 8, 2002, Timothy M. McGinn as the Chairman of the Board of Directors of McGinn, Smith & Co., Inc., ("McGinn, Smith") executed the Declaration of Trust ("Declaration") of Pacific Trust 02 ("Trust"), declaring that McGinn, Smith was the Trustee of the Trust, establishing the Trust for the benefit of Certificateholders, and defining its purpose.

The Trust is intended to be a common law trust under the laws of the State of New York, with its principal office at Capital Center, 99 Pine Street, Albany, New York 12207, which is the office of McGinn, Smith. The initial capital of the Trust was established at \$100.00, and the purpose of the Trust is to acquire, pursuant to the terms of the Participation Agreement, and subject to the terms of the Monitoring Receivable Financing Agreement, the right to receive the Scheduled Amounts of cash flow generated from the Portfolio of Contracts. Under the Declaration, the Trustee acquires virtually complete discretion in the operation of the Trust, so long as that discretion is exercised within the purpose of the Trust. The Declaration limits the liability of the Trustee in two ways. The Trustee will not be liable in the absence of willful misconduct or gross negligence. Further, the Trustee will not be liable, in any event, to pay sums of money beyond the corpus of the Trust. The Trustee is entitled to indemnification from the funds of the Trust (except in the case of willful misconduct or gross negligence) and to reimbursement for the reasonable and Necessary fees and expenses incurred in the administration of the Trust. The Trustee is entitled to indemnification and reimbursement from the corpus of the Trust before payments are made to Certificateholders.

The Declaration specifically provides that the Certificateholder shall not have any legal or equitable title to the Trust Estate, that no Certificateholder shall have a voice in the management or control of the property or affairs of the Trust, that the Trustee has no authority to require additional capital contributions from any Certificateholder, and that the Trustee is precluded from taking any action to make Certificateholders liable for the debts or obligations of the Trust.

### **Certificates**

The Certificates will be issued under the Declaration, a copy of which is included as an exhibit to this Memorandum. The rights of the Certificateholders and the obligations of the Trustee as they relate to the Certificates will be governed by the Declaration. Reference should be made to the Declaration for its complete terms. The statements contained in this Memorandum concerning the Declaration are merely a summary thereof, do not purport to be complete, and do not modify or amend the Declaration.

Subject to the conditions set forth in this Memorandum, Certificates in the maximum amount of \$1,000,000 will be offered by the Trust Fund. The Certificates will be retired in seventy-two (72) months from the date of issuance. The Certificates will bear interest on the outstanding principal at a per annum rate of 6.0%. Interest on the Certificates will be paid in monthly installments on the first day of each month commencing June 1, 2002. Principal and interest on the Certificates will be paid in monthly installments commencing on the first day of December, 2006 to and including May, 2008, in accordance with the Scheduled Cash Flow set forth on Exhibit B to the Participation Agreement.

The Certificates will be issued and registered in the name of the purchasing Certificateholder(s). Interest on the Certificates will be shown on, and transfers thereof will be effected through, records maintained by the Trustee.

#### **Payments**

Payments on the Certificates will be made out of the Scheduled Amount of the Monitoring Revenue Payments from the Portfolio of Contracts received by the Trust Fund each month.

#### **Prepayments**

The Certificates are not subject to a mandatory prepayment or redemption provision.

#### **Registration**

Each Certificate will be registered in the name of the purchaser thereof.

#### **Limited Transferability of the Certificates**

The Certificates are not freely transferable, and there is no secondary market for the Certificates and none is expected to develop. The Certificates should not be treated by Certificateholders as securities.

**The Certificates have not been registered under the Securities Act of 1933. They may not be offered for resale in the absence of an opinion of counsel, satisfactory to the Trust Fund, that registration is not required.**

#### **Reports**

Not later than January 31 of each year, the Trust Fund will furnish to the Certificateholders statements of interest income on IRS Form 1099-INT and such tax information as shall be Necessary in the preparation of such person's Federal income tax return.

### **CONFLICTS OF INTEREST**

Timothy M. McGinn and David L. Smith collectively own 100% of the issued and outstanding common shares of the Trustee. McGinn, Smith & Co., Inc. is acting as the Sales Agent for this Offering and will receive an Underwriting Discount equal to six percent (6%) of the gross proceeds of this Offering. The Underwriting Discount was not negotiated at arms length. In addition, McGinn, Smith Acceptance Corp., an affiliate of McGinn, Smith & Co., Inc. will receive a broker's fee in connection with the purchase of the Portfolio by the Trust Fund.

McGinn, Smith & Co., Inc. may experience a conflict of interest in performing its obligation to exercise due diligence with respect to the statements made in this Memorandum and, therefore, its due diligence review cannot be considered independent. A qualified independent underwriter has not been retained by the Trust Fund in connection with this offering. However, McGinn, Smith & Co., Inc. believes that such due diligence has, in fact, been exercised.

As discussed above, McGinn, Smith Acceptance Corp. will receive a broker's fee in connection with the purchase of the Portfolio by the Trust Fund. In addition, McGinn, Smith Acceptance



Corp. will pay the Trustee's expenses as set forth in the section entitled "Compensation and Fees". Due to the close relationship between these parties, the purchase price paid by the Trust Fund could be affected by the interests of McGinn, Smith Acceptance Corp. in its contract brokerage fee.

There has been no independent counsel retained to represent the interests of the Certificateholders. Certain legal matters in connection with the validity of the Certificates will be passed upon by Mary Ann McGinn, Esq. Mary Ann McGinn, is Vice President and General Counsel of McGinn, Smith & Co., Inc. and is the wife of Timothy M. McGinn.

### **THE TRUSTEE**

The names and positions of the directors and executive officers of the Trustee are as follows:

<u>Name</u>	<u>Position</u>
Timothy M. McGinn	Chairman of the Board and Director
David L. Smith	President and Director

The officers and directors of the Trustee will devote such time and effort to the business of the Trust Fund as they may deem Necessary and will actively be engaged in other business ventures.

The principal business occupations of the officers and directors during the past five (5) years are as follows:

Timothy M. McGinn, age 53, is the Chairman of the Board and Secretary of McGinn, Smith & Co., Inc. He has served as Chairman of the Board since the inception of this firm in 1980. Prior to founding McGinn, Smith & Co., Inc. he was with Paine, Webber, Jackson & Curtis. He has served on a number of corporate and charitable boards of directors and holds a bachelor's degree in Mechanical Engineering from Rochester Institute of Technology.

David L. Smith, age 56, is the President of McGinn, Smith & Co., Inc. and a member of the Board of Directors. he has served in this capacity since 1980. Prior to founding McGinn, Smith & Co., Inc. he was with Paine Webber, Jackson & Curtis. Mr. Smith has served on a number of charitable and corporate boards of directors and holds a bachelor's degree from Hamilton College.

### **COMPENSATION AND FEES**

The Trustee of the Trust Fund will serve without fee but will be reimbursed for expenses incurred by the Trustee in connection with the Trust Fund by McGinn, Smith Acceptance Corp.. Furthermore, McGinn, Smith Acceptance Corp., an affiliate of the Sales Agent, McGinn, Smith & Co., Inc., will receive a broker's fee in connection with the acquisition of the Portfolio by the Participants.

### SUITABILITY

Certificates will be sold only to investors who make a minimum purchase of \$50,000.00.

As described elsewhere in this Memorandum, the Certificates will be sold only to Accredited Investors as defined in Rule 501 of Regulation D promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended; provided, however, that at the discretion of the Sales Agent and the Company, Certificates may be sold to up to 35 non-accredited investors. Included in the definition of "Accredited Investor", as defined in Rule 501, are the following:

(a) any natural person whose individual net worth (including personal residences, furnishings and automobiles), or joint net worth with that person's spouse, at the time of purchase exceeds \$1,000,000;

(b) any natural person who had an individual income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 in each of those years and who reasonably expects gross income at the same level in the current year; and

(c) any entity in which all of the equity owners are Accredited Investors or which has total assets in excess of \$5,000,000.

Each investor accepted as an Accredited Investor will be required to represent that he satisfies the requirements of an Accredited Investor under Rule 501.

Among other things, each investor will be required to acknowledge and represent in the Subscription Agreement that: (i) he is purchasing the Certificates for his own account for investment and not with a view to the sale or distribution thereof; (ii) he is aware that the Certificates have not been registered for sale under the Securities Act of 1933 as amended, and that he will not transfer his Certificates in the absence of an opinion of counsel satisfactory to the Trust Fund that the Certificates have been registered or that registration is not required under the Securities Act of 1933, as then in effect, and under applicable state securities laws, if any; (iii) he understands that this investment involves a high degree of risk; (iv) he has adequate means of providing for his current needs and foreseeable personal contingencies, has no need for liquidity in this investment; (v) all books, records and documents pertaining to this investment have been made available to him; and (vi) his overall commitment to investments which are not readily marketable is not disproportionate to his net worth and his purchase of Certificates will not cause such overall commitment to become excessive.

The Sales Agent and Trust Fund reserve the right to reject any subscription in its entirety for any reason or to allocate to any investor Certificates in an aggregate principal amount less than that for which he has subscribed. In the event a subscription is rejected, the investor's subscription check for his Certificates (or the amount thereof) will be returned, and in the event of a partial rejection, a pro rata amount of his subscription check for his Certificates will be refunded.

Prospective investors may be required to complete an Investor Representation Letter relating to the suitability of the investment for them, and the Trust Fund may make or cause to be made such further inquiry as the Trust Fund deems appropriate.

Any prospective investor will be afforded the opportunity to obtain from the Trust Fund prior to the consummation of the transaction contemplated herein any additional information he may request necessary to verify the accuracy of the contents of this Memorandum and which the Trust Fund possesses or can acquire without unreasonable effort or expense and to confer with, ask questions of, and receive answers from the Trust Fund or persons authorized to act on its behalf, concerning the terms and conditions of the transaction, this memorandum and any additional information which has been requested and supplied to a prospective investor or his purchaser representative.

The purchase of Certificates may be suitable for individuals seeking an investment intended to provide income. An investment in Certificates may also be appropriate for corporations and trusts seeking investments which are structured to provide income. Nevertheless, this investment involves a number of significant risks, including no assurance that the Certificates will be paid and illiquidity. See "Risk Factors." Accordingly, the suitability of a purchase of Certificates for any particular investor will depend upon, among other things, such investor's investment objectives and such investor's ability and willingness to accept the risks of an investment in the Certificates.

The Sales Agent Agreement between the Trust Fund and the Sales Agent requires the Sales Agent to make diligent inquiries as required by law of all prospective purchasers in order to ascertain whether a purchase of Certificates is suitable for such person and to transmit promptly to the Trust Fund all fully completed Subscription Agreements. By tendering payment for a Certificate and by acceptance of the confirmation of purchase, an investor represents that he or it satisfies any applicable suitability standards. See "Plan of Distribution."

#### **TERMS OF THE OFFERING**

Subject to the conditions set forth in this Memorandum, Certificates in the maximum amount of \$1,000,000 (the "Maximum Offering") and the minimum amount of \$50,000 (the "Minimum Offering") will be offered by the Trust Fund.

The Certificates will be offered through McGinn, Smith & Co., Inc., the Sales Agent, on a best efforts basis over a period of three months. The Sales Agent is a member of the National Association of Securities Dealers, Inc.

All funds received by the Sales Agent from subscriptions for the Certificates will be placed in an escrow account (the "Escrow Account") maintained at Charter One Bank, FSB, (the "Escrow Agent"). Interest will be earned on funds held in the Escrow Account commencing three (3) business days after the funds are deposited until the earlier of the termination of this Offering or the investment of the funds in the Certificates. During the period that an investor's funds are held in the Escrow Account he will not be considered a Certificateholder.

With respect to the Certificates, no funding from the Escrow Account will occur until the Minimum Offering is subscribed for. If subscriptions for the Minimum Offering are not received within three months from the date of this Memorandum, subscriptions received with respect to the Certificates will be promptly returned in full to the investor by the Escrow Agent,

together with all interest earned while funds were held in the Escrow Account after deducting fees payable to the Escrow Agent. Fees payable to the Escrow Agent will be deducted from interest earned on the Escrow Account.

**How to Subscribe.**

The Certificates will be available for purchase in the minimum denomination of \$50,000.00 and increments of \$25,000.00. An investor who meets the qualifications set forth under "Who May Invest" and "Suitability" may subscribe for Certificates by completing, signing and delivering to the Sales Agent an executed copy of the Subscription Agreement contained in this Memorandum. All subscriptions must be accompanied by a check in the amount of the Certificate(s) purchased payable to "*Charter One Bank, FSB, Escrow Agent for Pacific Trust 02*". Upon execution of a Subscription Agreement, the investor agrees to all of the terms and conditions contained in the Agreement. Subscriptions are, however, subject to acceptance by the Trust Fund.

### **PLAN OF DISTRIBUTION**

The Trust Fund is offering a maximum of \$1,000,000 of Certificates, and a minimum of \$50,000. The minimum investment by an investor is \$50,000.00 with increments of \$25,000.00. The Offering period will end not later than three (3) months from the date of this Memorandum. No Certificates will be sold unless subscriptions for the Minimum Offering are received and accepted within three months of the date of this Memorandum. Subscriptions are subject to acceptance by the Trust Fund. See "Suitability"; "Who May Invest".

During the course of the Offering, the subscription payments will be promptly forwarded by the Sales Agent to the Escrow Agent for deposit in the Escrow Account. For a description of the distribution of funds from the Escrow Account, see "Terms of the Offering".

The Certificates will be offered on a "best efforts" basis by the Sales Agent.

### **DISCLAIMER OF LIABILITY OF TRUSTEE**

Reference is hereby made to the Declaration of Trust dated April 8, 2002, a copy of which is attached hereto as Exhibit "A". Other than potential liability under the Securities Act, the Trustee, nor any shareholder, manager, officer, employee, affiliate or agent of the Trustee may be held to any liability in connection with the Offering or the Certificates, or in connection with the affairs of the Trust Fund, in the absence of willful misconduct or gross negligence. Further, the Trustee will not be liable, in any event, to pay sums of money beyond the corpus of the Trust.

### **INCOME TAX CONSIDERATIONS**

The following discussion summarizes certain material anticipated federal income tax consequences relevant to the acquisition, ownership and disposition of Certificates, but does not purport to address all potential consequences. The summary is for general information only and does not discuss all of the tax consequences that may be relevant to particular investors in light of their personal investment circumstances or holders who receive special treatment under the Internal Revenue Code of 1986, as amended (the "Code"), such as insurance companies, financial institutions, and broker-dealers. In addition, this discussion does not describe any tax consequences arising out of foreign, state or local jurisdictions.

The discussion is based upon current provisions of the Code, applicable regulations promulgated thereunder, judicial authority and administrative rulings and practice. All of the foregoing are subject to change which may be retroactive and could affect the continuing validity of this discussion. There can be no assurance that the Internal Revenue Service (the "IRS") will not take a contrary view, and no ruling from the IRS has been or will be sought.

The Trust Fund has not obtained an independent tax opinion with regard to this Offering. Prospective investors should consult their own tax advisors regarding the federal, foreign, state, local and other tax consequences of purchasing, holding and disposing of the Certificates.

**Interest Income to Certificateholders**

It is anticipated that the Certificates will be issued at par value and, therefore, no original issue discount will arise with respect to the Certificates. Accordingly, a Certificateholder will be required to report interest on a Certificate as income for federal income tax purposes in accordance with such holder's method of accounting.

**Gain or Loss on Disposition of Certificates**

In general, the holder of a Certificate will recognize gain or loss on the sale, exchange, redemption or other disposition of a Certificate equal to the difference between the amount realized (except to the extent attributable to the payment of accrued interest) and the adjusted basis in his Certificate. Any gain or loss recognized will generally be a Trust gain or loss if the Certificate is held as a Trust asset and will be long-term gain or loss if the Certificate is held for more than one year.

**Information Reporting**

The Trust Fund will report interest income to Certificateholders on IRS Form 1099-INT and as otherwise consistent with such treatment.

**Backup Withholding**

A Certificateholder may be subject to "backup withholding" at the rate of 31% (see IRC§3406(a)) with respect to interest paid on, or the proceeds of a sale, exchange or redemption of, such Certificates, unless such holder (i) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (ii) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable exemption from backup withholding rules. Any amount withheld under these rules will be creditable against the Certificate-holder's federal tax liability.

**THE FOREGOING DISCUSSION OF CERTAIN FEDERAL INCOME TAX CONSEQUENCES IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT WITH HIS OR HER OWN TAX ADVISER WITH RESPECT TO THE TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE CERTIFICATES.**

**LEGAL MATTERS**

Legal matters in connection with the validity of the Certificates offered hereby will be passed upon for the Trust Fund by Mary Ann McGinn, Esq., Capital Center, 99 Pine Street, Albany, New York 12207.

**TABLE OF CONTENTS OF EXHIBITS**

The discussion in this Memorandum of each Exhibit set forth below is qualified in its entirety by reference to such Exhibit.

Exhibit "A" Declaration of Trust  
Exhibit "B" Subscription Agreement

Exhibit "C" Purchaser Questionnaire  
Exhibit "D" Monitoring Receivable Financing Agreement  
Exhibit "E" Monitoring Receivable Financing Participation  
Agreement  
Exhibit "F" Lock Box Agreement

#### **ADDITIONAL INFORMATION**

Additional information is available upon request to the Trust Fund. Only additional information provided by the Trust Fund may be relied upon. Prospective investors may request such information from the Sales Agent, McGinn, Smith & Co., Inc., Fifth Floor, 99 Pine Street, Albany, New York 12207.

EXHIBIT "A"  
TRUST AGREEMENT



DECLARATION OF TRUST OF PACIFIC TRUST 02

This Trust Agreement made as of the 8th day of April, 2002, by and between McGinn, Smith & Co., Inc., a New York Corporation with an address at Capital Center, 99 Pine Street - 5th Floor, Albany, New York 12207 ("Trustee"), and those persons who acquire an interest herein by the execution and performance of a subscription agreement ("Subscription Agreement") attached as Exhibit B to the Confidential Private Placement Memorandum dated as of April 10, 2002 ("Confidential Memorandum").

W I T N E S S E T H:

WHEREAS, McGinn Smith Acceptance Corp. desires to create a trust for the purpose of enabling and authorizing the acquisition of certain contracts more fully described herein ("Contracts") and

WHEREAS, the Trustee is willing to accept the duties and obligations imposed hereby on the terms and conditions hereinafter set forth;

NOW, THEREFORE, the Trustee does hereby declare, that the Trustee will hold said property which it may acquire as such Trustee, together with the proceeds thereof in trust, to manage and dispose of the same for the benefit of the Certificateholders hereunder in the manner and subject to the stipulations herein contained.

ARTICLE I  
NAME

This trust shall be designated and known as the "PACIFIC TRUST 02", not incorporated, and under that name shall, so far as practicable, conduct all activities and execute all instruments in writing in the performance of the Trust.

ARTICLE II  
DEFINITIONS

The following words, terms and phrases used herein shall be given the meaning stated below in this Article, unless such meaning would be clearly in conflict with the purposes and spirit of this instrument; capitalized words not defined in this Declaration shall have the meaning provided in the Monitoring Receivable Financing Agreement ("Financing Agreement") or in the Monitoring Receivable Financing Participation Agreement ("Participation Agreement").

"Certificateholder" shall mean the holder for the time being, according to the books of the Trustee, of the Certificates as evidenced by this Declaration and the Certificates issued by the Trustee.

"Permitted Investments" means investments in the obligations to pay for goods or services in return for residential electronic monitoring services, more commonly known as "Residential Monitoring Contracts", as more fully described in the Financing Agreement. In addition, to the extent not employed for investment in Residential Monitoring Contracts, temporary investments may be made in (1) certificates of deposit, in (2) short term AAA rated debt obligations regularly traded on a

recognized exchange in the United States, or in (3) obligations issued by the United States Treasury or other obligations backed by the "full face and credit" of the United States.

"Share" shall mean a share in the beneficial interest of the property, assets, trust fund and corpus of the Trust.

"Transaction Documents" shall mean this Declaration of Trust, the Participation Agreement and the Financing Agreement.

"Trust", "Trust Estate", and "Capital" shall mean the trust fund hereunder, consisting of the corpus of the estate; that is, all property, real, personal and mixed of every kind and description howsoever acquired and wherever situated, held under this Declaration of Trust by the Trustee.

"Trustee" shall mean the trustee herein named, and those who are or may be trustees.

### ARTICLE III OFFICE OF THE TRUST

The principal office of this Trust shall be located at Capital Center, 99 Pine Street, Albany, New York 12207, until changed by the Trustee. The principal office may be changed and branch offices established, maintained, changed and discontinued at such times and places as the Trustee in its discretion may determine, with notice to the Certificateholders.

### ARTICLE IV CAPITAL OF THE TRUST

The initial Capital of this Trust shall be One Hundred Dollars (\$100), paid to the Trustee concurrently with execution and delivery hereof. The Capital of the Trust or any part thereof, shall be held for the use and benefit of the Trust at such places and upon such terms as the Trustee may fix. The Trustee may not require any Certificateholder to make any contribution, in addition to the initial contribution made by such Certificateholder, to increase the Capital of the Trust. The Trustee shall receive such contributions to the Capital of the Trust as may be made by Certificateholders from time to time and apply the same for the purpose stated by Article V of this Trust Agreement.

### ARTICLE V PURPOSE OF THE TRUST

The purpose of this Trust is to acquire, pursuant to the Financing Agreement, and subject to the terms of the Participation Agreement, the right to receive payments made in return for services rendered by Palisades Group, LLC, a New York limited liability company. Without in any way limiting or curtailing the foregoing purposes, the Trustee is hereby authorized, without further authority and without any additional or other instruction by the Certificateholders, not in its individual capacity but solely as Trustee on behalf of the Trust, to execute and deliver the following documents: the Financing Agreements, the Participation Agreement, the Escrow Agreement between Trustee and Charter One Bank, FSB, and such other documents as may be necessary to effectuate the transaction describe herein. In furtherance of the foregoing, the Trustee shall have the following rights, powers and authority:

(1) the Trustee shall, as far as convenient and practicable, take and hold the title, both legal and equitable, to all property, however acquired under the terms hereof, in the name of the Trust. All conveyances of every kind and description, at any time made to or in the name of the Trustee of the Trust shall be held to vest the title to property so conveyed in the Trustee as such under this instrument, the title "PACIFIC TRUST 02" being merely intended as a convenient designation of the Trustee hereunder.

(2) The Trustee shall administer and dispose of all properties for the benefit of Certificateholders hereunder, as represented by their Certificates.

(3) The Trustee shall manage, control and dispose of all the Trust Estate and its business affairs, of every kind and character within the authority granted in Article I hereof.

(4) The Trustee shall, in such capacity, exclusively and absolutely, have full, absolute and plenary rights, authority to pledge, exchange, mortgage and convey or otherwise dispose of property of every kind, character and description, real, personal and mixed, that may be part of the Trust Estate.

(5) The Trustee shall have, in furtherance of the purposes of the Trust, the absolute right, power and authority to institute, maintain and defend actions, suits and proceedings in any court of law or equity either in the name of said Trust or in its name as Trustee thereof; to sell, transfer, assign and convey the whole or any part of the Trust Estate, invest and reinvest the proceeds thereof at any time in Permitted Investments provided that the Trustee shall have no obligation to invest such proceeds and shall not be accountable for any losses howsoever incurred; to collect any money, and pledge the assets of the Trust as security therefore to execute and deliver in the manner herein provided all deeds, leases, mortgages, powers of attorney and other instruments in writing which the Trustee may deem necessary and proper in the exercise of the powers conferred hereunder; and to perform or withhold any act or thing of any kind or character, which in the Trustee's judgment may be necessary, proper or expedient, in carrying into effect the purposes of this Trust or any purposes specified in this Declaration of Trust, or in any amendments hereto, duly made and adopted.

#### ARTICLE VI LIMITATION OF LIABILITY OF TRUSTEE AND CERTIFICATEHOLDERS

Neither the Trustee, nor any of its officers or servants shall have any right, power or authority, under any circumstances, or in any event to act as the agent of the Certificateholders or to bind them personally or to impose any liability or obligation upon them in any way whatsoever with respect to this Trust Estate or otherwise. All persons contracting with the Trustee or its officers, agents or employees shall look only to the Trust Fund for the payment of any damage, claim, judgment or decree, or of any money that may become due or payable in any way to them whether founded upon contract or tort, and neither the Trustee nor the Certificateholders, present or future, nor any of them shall as such be personally liable therefore or on any agreement or contract made by the Trustee, or by any officers, agents or employees of the Trustee, its officers or agents, or employees in connection with the Trust Estate. No amendment shall ever be made to this Declaration of Trust, increasing or enlarging the liability of either the Trustee or the Certificateholders as herein stipulated.

ARTICLE VII  
LIMITATION OF LIABILITY OF TRUSTEE; INDEMNIFICATION

The Trustee shall not be liable hereunder in any event or under any circumstances, for the acts or omissions of any other Trustee or of any officer, agent or employee, or any other person whatsoever, whether employed by such Trustee or not, or for any act or thing whatsoever, other than such Trustee's own willful misconduct or gross negligence. The Trustee in its individual capacity and as Trustee shall be indemnified by, and receive reimbursement from the Trust Estate against and from any and all liability, claim, damage or loss, suit, action, tax (including interest and penal ties), fine, penalty, cost and expense (including but not limited to legal fees and disbursements) of whatsoever kind and nature which may be imposed upon, incurred by or asserted at any time against the Trustee (in its individual or trust capacity) in any way relating to or arising out of the administration of the Trust Estate, or arising from any act or omission hereunder or under the Transaction Documents, except such as may arise from such Trustee's own willful misconduct or gross negligence. In addition, the Trustee shall be entitled to indemnification from the Trust Estate for any liability, obligation, loss, damage, penalty, tax, claim, action, suit, cost, expense or disbursement indemnified against pursuant to this Article VII and to secure the same the Trustee shall have a lien on the Trust Estate prior to the interest of the Certificateholders or any other person. Trustee shall file all tax returns and other governmental reports required to be filed by the Trustee in connection with the transaction contemplated hereby. Without limiting the foregoing, the Trustee shall under no circumstances be required to take any action or omit to take any action in the administration of the Trust Estate or otherwise in connection with the transactions contemplated hereunder unless the Trustee determines in its absolute discretion that indemnification in respect of such action or omission is available to it to its reasonable satisfaction, provided that the Trustee shall not be required to take or omit any action if the Trustee shall have been advised by its counsel that taking or omitting such action is contrary to the terms of any other agreement or instrument referred to herein or is otherwise contrary to law. The indemnities contained in this Article VII shall survive the termination of this Trust Agreement.

The Trustee shall not be entitled to receive compensation for its services from the Trust Estate. The Trustee shall not have any duty or obligation to manage, control, use, sell, dispose or otherwise deal with the Trust Estate or to otherwise refrain from taking any such action under or in connection with this Trust Agreement or the other agreements or instruments referred to herein except as expressly provided by the terms of this Trust Agreement, and no implied duties shall be read into this Trust Agreement against the Trustee. The Trustee shall not be answerable or accountable under any circumstances except for its own willful misconduct or gross negligence. The Trustee shall no duty to see to the payment or discharge of any tax, assessment or other governmental charge or any lien or encumbrance of any kind owing with respect to, or assessed or levied against, any part of the Trust Estate.

The Trustee shall at all times be entitled to request and receive instructions from the Certificateholders prior to being required to take or omit to take any action hereunder, provided that except as therein specified no further instruction is required for taking of the actions provided by the second sentence of Article V hereof.

THE TRUSTEE MAKES NO REPRESENTATION OR WARRANTY AS TO THE VALUE, CONDITIONS, MERCHANTABILITY, FITNESS FOR USE, VALIDITY, ENFORCEABILITY OF OR TITLE TO ANY PROPERTY AT ANY TIME CONSTITUTING PART OF THE TRUST ESTATE, and makes no representation or warranty as to the validity, legality or enforceability of this Trust Agreement or any

agreement or instrument referred to herein, except that the Trustee hereby represents and warrants that this Trust Agreement has been duly executed and delivered by one of its officers, who is duly authorized to execute and deliver such document on its behalf.

The Trustee shall not incur any liability to anyone in acting upon any signature, instrument, notice, resolution, request, consent, telegram, order, certificate, report, opinion, bond, or other document or paper believed by it to be genuine and believed by it to be signed or sent by the proper party or parties. As to any fact or matter, the manner of ascertainment of which is not specifically described herein, the Trustee may for all purposes rely on a certificate signed by an officer of any Certificateholder as to such fact or matter, and such certificate shall constitute full protection to the Trustee for any action taken or omitted to be taken by it in reliance thereon. In the performance of its duties hereunder, the Trustee may act directly or through its agents or attorneys and may, at the expense of the Trust Estate, consult with counsel, accountants and other skilled persons to be selected and employed by it, and the Trustee shall not be liable for anything done, suffered or omitted by it in accordance with the advice or opinion of any such counsel, accountants or other skilled persons.

The Trustee or successor trustee may resign at any time without cause by giving at least 10 days' prior written notice to the Certificateholders, such resignation to be effective on the date specified in such notice. In such event, the Certificateholders shall appoint such new Trustee. If a successor trustee shall not have been appointed prior to the effective date of such resignation, the Trustee may apply to any court of competent jurisdiction to appoint a successor trustee until such time, if any, as a successor trustee shall have been appointed. Any successor trustee shall execute and deliver to the predecessor trustee an instrument accepting such appointment and thereupon the predecessor trustee shall be released from its obligations hereunder and the successor trustee shall be vested with all rights, powers, duties and obligations of the Trustee hereunder, and the predecessor trustee shall transfer, deliver, and pay over, at the expense of the Trust Estate, any monies or other property then held by such predecessor trustee upon the Trust herein expressed.

All monies received hereunder by the Trustee shall constitute trust funds for the purpose of which they were paid or are held, but need not be segregated in any manner from any other monies and may be deposited and paid by the Trustee under such conditions as may be prescribed or permitted by law for trust funds.

ARTICLE VIII  
CERTIFICATEHOLDERS, LACK OF CONTROL AND MANAGEMENT

No Certificateholder shall have any title, legal or equitable, to the Trust Estate, real or personal, held from time to time by the Trustee, or to any part thereof, or any right or voice in the management or control of the property or affairs of the Trust, each Certificateholder's interest being only such as is defined in this Declaration of Trust. No Certificateholder shall have the right to call for or demand or secure any partition or accounting during the continuance of this Trust. Its interest in this Trust shall be personal property, carrying only the right to payments pursuant to the Certificate. The Trust shall not be dissolved, nor affected by the death, insolvency or incapacity of the Certificateholder or one or more of the Trustees, nor shall such death, insolvency or incapacity entitle the legal representatives or heirs or assigns, voluntary holder, receiver or trustee to any accounting or to any action at law or in equity or otherwise, against the Certificateholders or Trustee, or against the Trust Estate, or any part thereof, but such legal representative, heir, assign, receiver, or trustee shall succeed to the rights of the deceased, insolvent, bankrupt or incapacitated Certificateholder, subject to this Declaration of Trust and any amendments hereto, and shall succeed to nothing more.

ARTICLE IX  
NO PARTNERSHIP

It is expressly declared that a trust, and not a partnership, is created and established by this instrument. Neither the Trustee nor any Certificateholder shall ever be deemed in any way whatsoever to be liable or responsible hereunder as partners or otherwise.

ARTICLE X  
CERTIFICATEHOLDERS; NO PERSONAL LIABILITY

No assessment or other personal liability or obligation shall, under any circumstances or in any event, be made or imposed upon the Certificateholders.

ARTICLE XI  
REFERENCE TO INSTRUMENT

The Trustee shall, as far as practicable, make reference to the Declaration in every written contract or undertaking that shall be entered into in the name of the Trustee or on behalf of, or relating to the business, affairs or property of this Trust.

ARTICLE XII  
RELATIONSHIP WITH THIRD PARTIES; NO INQUIRY

In no event and under no circumstances shall any one dealing with the Trustee be obligated either at law or in equity to see to the application of any funds or properties passing into the hands of the Trustee, there being no intention that purchasers of Trust property, or any other parties dealing with the Trustee, shall see that the purchase money is applied to the purposes of the Trust.

ARTICLE XIII  
INTEREST AND EARNINGS

The Capital of the Trust and the earnings and interest thereon shall be apportioned and distributed to the Certificateholders in accordance with this Declaration and the Certificates issued by the Trustee.

ARTICLE XIV  
AGREEMENT OF CERTIFICATEHOLDERS

The Certificateholders shall be held to have assented to this Declaration of Trust, and to all acts performed by Trustee within the authority granted by this Declaration.

ARTICLE XV  
TERM AND TERMINATION

Unless earlier terminated, as hereinafter provided, this Trust shall continue until the earlier of either (i) ten years from the date first hereinabove mentioned or (ii) the date when the Trust shall have distributed all of its Capital. The Trustee may otherwise terminate this Trust only with the unanimous written consent of the Certificateholders, provided, however, that any termination of the Trust shall not impair or have any effect whatever upon the contracts, obligations, and liabilities of said Trust Estate existing or outstanding at the time of such termination. At the expiration or upon the termination of the Trust, the Trustee shall proceed to wind up its affairs, liquidate its assets and distribute the same to the Certificateholders, without recourse or warranty of any kind, and for these purposes the then Trustee shall continue act until such duties have been fully performed. Upon completion of such duties, the Trustee shall be deemed discharged in full.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals as of the 8th day of April, 2002.

MCGINN, SMITH & CO., INC., not in its  
individual capacity, except as specified herein,  
but solely as Trustee under this Declaration of  
Trust dated as of April 8, 2002.

By: \_\_\_\_\_  
Timothy M. McGinn, Chairman

STATE OF NEW YORK)  
COUNTY OF ALBANY ) SS.:

On this \_\_\_\_ day of April, 2002, before me personally appeared Timothy M. McGinn, to me known who, being by me duly sworn, did depose and say that he resides at Albany, New York; that he is the Chairman of the Board of McGinn, Smith & Co., Inc., the Trustee described in and which executed the foregoing instrument as Trustee; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by order of the Board of Directors of said corporation, and that he signed his name thereto by like order.

\_\_\_\_\_  
Notary Public

EXHIBIT "B"

SUBSCRIPTION AGREEMENT



### SUBSCRIPTION AGREEMENT

THE CERTIFICATES WHICH ARE THE SUBJECT OF THIS AGREEMENT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933. THEY MAY NOT BE OFFERED FOR RESALE IN THE ABSENCE OF AN OPINION OF COUNSEL, SATISFACTORY TO THE TRUST FUND, THAT REGISTRATION IS NOT REQUIRED. IN ADDITION, THIS AGREEMENT AND THE CERTIFICATES CONTAIN SUBSTANTIAL RESTRICTION ON TRANSFERABILITY.

#### **PACIFIC TRUST 02** (a New York Trust)

TO: PACIFIC TRUST 02. (the Trust Fund):

1. Subscriptions. I hereby subscribe for and agree to purchase the dollar amount of the Trust Fund's Certificates (the "Certificates") as is set forth opposite my name acknowledging the minimum purchase to be Fifty Thousand Dollars (\$50,000) and increments of Twenty Five Thousand Dollars (\$25,000).
2. Payment. I hereby agree to pay the Trust Fund the purchase price for the Certificates by delivery herewith of a check in the face amount of the Certificates subscribed for payable to the order of "CHARTER ONE BANK, FSB-Escrow Agent for Pacific Trust 02".
3. Restriction on Transfer of the Certificates. I understand that any resale or transfer of the Certificates by me is subject to substantial restriction, in that:
  - (i) The Certificates have not been registered under the Securities Act of 1933 or applicable state securities laws. The Certificates cannot be sold or transferred by subscribers in the absence of an opinion of counsel that registration is not necessary. The Trust Fund is not required to register the Certificates or to make any exemption from registration available.
  - (ii) My right to sell or transfer any of the Certificates will be restricted as follows: (1) restrictions against sale or transfer in violation of applicable securities law; (2) the requirement that I furnish an opinion of counsel that any proposed sale or transfer by me will not violate such laws; (3) the Trust Fund must consent to the transfer of my Certificates; and (4) other restrictions and requirements, including such restrictions on transfer arising under state securities laws.
  - (iii) There will be no public market for the Certificates, and I may not be able to sell my Certificates. Accordingly, I must bear the economic risk of my investment for an indefinite period of time.
4. Investment Representation. I represent and warrant that I am acquiring my Certificates for my own account and not on behalf of other persons, and that I am acquiring my Certificates for investment purposes only and not with a view to the resale or distribution thereof; I understand that the Certificates will be offered and sold in a manner which would qualify the transaction for an exemption as a private placement under Rule 506 of the Securities Act of 1933. The Certificates may not be transferred or assigned except as provided herein.

5. Subscription Irrevocable by Certificateholder. This Subscription Agreement is not, and shall not be, revocable by me, except as provided by applicable state securities law requirements, and I intend to be legally bound by this Subscription Agreement.
6. Subscription Subject to Acceptance or Rejection by the Trust Fund. The Trust Fund, in its sole discretion, shall have the right to accept or reject this subscription at any time on or before the Closing.
7. Offering of Certificates Subject to Withdrawal. If the Trust Fund does not receive subscriptions for Certificates in the minimum amount of \$50,000.00 before the Termination Date, the Offering of Certificates will be withdrawn and I understand that all my subscription documents and payments will be returned to me, with interest, less the cost of escrow, and without further obligation of the Trust Fund.
8. Additional Representations and Warranties. I represent and warrant that:
  - (a) (i) I have received and have carefully read and understood the Memorandum dated April 10, 2002 (the "Memorandum") given to me by the Trust Fund in connection with the offering of Certificates.
  - (ii) I have been furnished with all additional documents and information which I have requested.
  - (iii) I have had the opportunity to ask questions of and receive answers from the Trust Fund concerning the Trust Fund and the offering of Certificates and to obtain any additional information necessary to verify the accuracy of the information furnished.
  - (iv) I have relied only on the foregoing information and documents in determining to make this subscription, and the decision to acquire Certificates of the Trust Fund has been made based upon my own evaluation of the merits and risks of the Trust Fund.
  - (v) I will not offer to sell, or resell, the Certificates except in accordance with Section 3(ii) hereof.
  - (vi) I will require any purchaser to provide the Trust Fund with his address.
- (b) I recognize that investment in the Certificates involves substantial risk factors, including those set forth under "Risks" in the Memorandum.
- (c) I have adequate means of providing for my current needs and possible personal contingencies, and I have no need for liquidity in my investment in the Certificates.
- (d) My overall commitment to investments which are not readily marketable is not disproportionate to my net worth and my purchase of Certificates will not cause such overall commitment to become excessive.
9. Indemnification and Hold Harmless. If I breach any agreement, representation or warranty I have made in this Subscription Agreement or any other document I have executed in connection with this offering, I agree to indemnify and hold harmless the Trust Fund, the Trustee, or any officer or director of the Trustee and any person controlling either or any of them against any claims, actions, liability, loss, damage or expense (including attorney's fees

and other costs of investigation and litigating claims) caused, directly or indirectly, by my breach.

10. Subscriber Information. This Subscription and my Certificates shall be recorded on the Trust Fund's books.

IN WITNESS WHEREOF, I have executed this Subscription Agreement this \_\_\_\_\_ day of \_\_\_\_\_, 2002.

Name: \_\_\_\_\_

☒ \_\_\_\_\_  
Social Security or Fed ID Number

Signature: ☒ \_\_\_\_\_

☒ \_\_\_\_\_  
Second Signature (if applicable)

Address: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Amount Purchased: \$ \_\_\_\_\_

Bear Stearns Acct # (if applicable):  
\_\_\_\_\_

EXHIBIT "C"  
QUESTIONNAIRE

**CONFIDENTIAL**

**PURCHASER QUESTIONNAIRE FOR INDIVIDUALS**

**PACIFIC TRUST 02  
(A New York Trust)**

The offering is being made pursuant to Regulation D under the Securities Act of 1933 (the "Act"). One of the requirements of the Regulation is that the persons involved in the offering and sale of the securities must have reasonable grounds to believe either:

(i) that the Offeree has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment; or

(ii) the undersigned is acquiring the Certificates for investment purposes only and not with a view towards resale.

(iii) the undersigned is aware that this offering will involve Certificates for which no resale market exists, thereby requiring this investment to be maintained for the stated term of each Certificate.

Your answers will, at all times, be kept strictly confidential; however, each party who signs the questionnaire hereby agrees that the Trust may present this questionnaire to such parties as may seem appropriate in order to insure that the offer and sale of the Certificates to you will not result in violation of any exemption from registration under the Act which may be relied upon by the Trust in connection with the sale of the Certificates.

Please complete this questionnaire as thoroughly as possible and sign, date and return to the Trust c/o McGinn, Smith & Co., Inc., 5th Floor, 99 Pine Street, Albany, New York 12207.

Please print or type:

Name: \_\_\_\_\_

Home Address: \_\_\_\_\_

Date of Birth: \_\_\_\_\_

Social Security No. \_\_\_\_\_

Occupation: \_\_\_\_\_

Business Address: \_\_\_\_\_

Business Telephone: \_\_\_\_\_

Home Telephone: \_\_\_\_\_

Communications should be sent to:

Home Address \_\_\_\_\_ or Business Address \_\_\_\_\_

1. What is your approximate net worth?

\_\_\_\_\_ \$50,000 - \$100,000  
\_\_\_\_\_ \$100,000 - \$250,000  
\_\_\_\_\_ \$250,000 - \$500,000  
\_\_\_\_\_ \$500,000 - \$1,000,000  
\_\_\_\_\_ Greater than \$1,000,000

2. Did your individual income exceed \$200,000.00 in 2000 and 2001, or did your joint income with your spouse exceed \$300,000.00 in each of those years?

Yes \_\_\_\_\_ No \_\_\_\_\_

3. If the answer to #2 above is "yes", do you expect to reach the same income level in 2002?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. What was your approximate gross income for calendar year 2001?

\_\_\_\_\_ \$25,000 - \$100,000  
\_\_\_\_\_ \$100,000 - \$200,000  
\_\_\_\_\_ \$200,000 - \$300,000  
\_\_\_\_\_ \$300,000 - \$500,000  
\_\_\_\_\_ Greater than \$500,000

5. What will your approximate gross income be for calendar year 2002?

\_\_\_\_\_ \$25,000 - \$100,000  
\_\_\_\_\_ \$100,000 - \$200,000  
\_\_\_\_\_ \$200,000 - \$300,000  
\_\_\_\_\_ \$300,000 - \$500,000  
\_\_\_\_\_ Greater than \$500,000

To the best of my information and belief, the above information is accurate and complete in all respects.  
I agree to notify the Trust promptly of any changes which occur prior to sale of the Certificates.

Purchaser:

Date:

\_\_\_\_\_  
Name (printed)

\_\_\_\_\_  
Signature

CONFIDENTIAL

PURCHASER QUESTIONNAIRE FOR CORPORATIONS AND PARTNERSHIPS

PACIFIC TRUST 02  
(A New York Trust)

The offering is being made pursuant to Regulation D under the Securities Act of 1933 (the "Act"). One of the requirements of the Regulation is that the persons involved in the offering and sale of the securities must have reasonable grounds to believe either:

(i) that the Offeree has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment; or

(ii) that the Offeree and its Offeree Representative(s), together, have such knowledge and experience in financial and business matters, that they are capable of evaluating the merits and risks of the prospective investment and that the Offeree is able to bear the economic risk of the invest.

The purpose of this Questionnaire is to assist PACIFIC TRUST 02 (the "Trust") in complying with the above requirement.

Please contact McGinn, Smith & Co, Inc., 5th Floor, 99 Pine Street, Albany, New York 12207 (518-449-5131) if you have any questions in answering this questionnaire.

If the answer to any questions "None" or "Not Applicable", please so state.

Your answers will, at all times, be kept strictly confidential; however, each party who signs the Questionnaire hereby agrees that the Trust may present this Questionnaire to such parties as may seem appropriate in order to insure that the offer and sale of the Certificates to you will not result in violation of any exemption from registration under the Act which may be relied upon by the Trust in connection with the sale of the Certificates.

Please complete this Questionnaire as thoroughly as possible and sign, date and return one (1) copy to the Trust c/o McGinn, Smith & Co., Inc., 5th Floor, 99 Pine Street, Albany, New York 12207.

Please print or type:

Name of Organization: \_\_\_\_\_

Business Address: \_\_\_\_\_

Business Telephone: \_\_\_\_\_

Federal ID Number: \_\_\_\_\_

1. Was the organization formed for the specific purpose of acquiring the Trust's Certificates?

Yes \_\_\_\_\_

No \_\_\_\_\_

2. Does the organization possess total assets in excess of \$5,000,000?

Yes \_\_\_\_\_

No \_\_\_\_\_

3. Does each equity owner of the organization:

A. Have a net worth, exclusive of home, furnishings, and automobiles, of at least \$1,000,000?

Yes \_\_\_\_\_ No \_\_\_\_\_

B. Have an individual net income in excess of \$200,000 in 2000 and 2001, or joint income with that person's spouse in excess of \$300,000 in each of those years, and have a reasonable expectation of reaching the same income level in 2002?

Yes \_\_\_\_\_ No \_\_\_\_\_

4. I am aware that the Certificates proposed to be offered will not be readily marketable or transferable.

Yes \_\_\_\_\_ No \_\_\_\_\_

5. The organization can afford the complete loss of its investments in the Certificates and has no need for liquidity in this investment.

Yes \_\_\_\_\_ No \_\_\_\_\_

6. Stated below are the organization's previous investments in similar securities and other private placements during the past five years:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

7. I understand that, unless the organization satisfies certain criteria, in order to qualify as a purchaser of Certificates, I must have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Trust or I must engage an attorney, accountant or other financial advisor for the purpose of this particular transaction.

I hereby represent, by initialing on the Representation A or Representation B line below, that:

A. I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of an investment in the Certificates and will not require a Purchase Representative.

Representation A. \_\_\_\_\_

B. I have relied upon the advice of the following Purchaser Representative(s) in evaluating the merits and risks of an investment in the Certificates:

Representation B. \_\_\_\_\_

\_\_\_\_\_  
Name



To the best of my information and belief, the above information is accurate and complete in all respects. I agree to notify the Trust promptly of any changes which occur prior to sale of the Trust's Certificates.

Purchaser:

Date:

\_\_\_\_\_  
Print Name of Organization

By:

Title

PURCHASER REPRESENTATIVE QUESTIONNAIRE

PACIFIC TRUST 02

The information contained herein is being furnished to PACIFIC TRUST 02 (the "Trust") in order to facilitate a determination as to whether the undersigned may act as a Purchaser Representative, as such term is used in Regulation D promulgated under the Securities Act of 1933, as amended (the "Act"), in connection with the proposed offer and sale by the Trust of its Contract Certificates (hereinafter referred to as the "Certificates"). The answers below are correct, and the Trustee is entitled to rely on them in making the foregoing determination.

REPRESENTATIONS

I represent, warrant and covenant to you that:

(a) the information contained herein is complete and accurate and may be relied upon by you in determining whether I may act as a Purchaser Representative pursuant to Regulation D in connection with offers and sales of the Certificates;

(b) I will notify you immediately of any material change in any of such information occurring within ninety (90) days of the close of sale of the Certificates to the Purchaser;

(c) (i) I have been designated, or will be designated, pursuant to the Purchaser Questionnaire of each Purchaser, as the Purchaser Representative or such Purchaser, in connection with evaluating the merits and risks of his prospective investment in the Certificates;

(ii) I have disclosed or will disclose, to each Purchaser, in writing, prior to the designation referred to above, any material relationship between me or my affiliates and the Trust, which now exists or is mutually understood to be contemplated, or which has existed at any time during the previous two (2) years, and any compensation received as a result of such relationship, including any compensation received in connection the offering of Certificates herein; and

(iii) I will deliver to each of you a counterpart of the disclosure statement referred to in (ii) above, and and such other documents or information as each of you may request relating to the performance by me of my duties as a Purchaser Representative.

(Attach additional sheets if required)

1. Name: \_\_\_\_\_

Age: \_\_\_\_\_

Social Security No.: \_\_\_\_\_

2. Names of offerees I am representing:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

3. Firm name: \_\_\_\_\_  
 Empl. Iden. No.: \_\_\_\_\_  
 Position: \_\_\_\_\_  
 Nature of Duties: \_\_\_\_\_  
 Business Address: \_\_\_\_\_  
 Business telephone number: ( \_\_\_\_\_ ) \_\_\_\_\_

4. Prior occupations or positions during the past five years:  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

5. Description of prior experience in advising clients with respect to investments, including a description of the types of investments, the dollar amounts involved, and the number of years of experience which you have in financial, business and tax oriented matters:

General Investments (specify)

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

Private Placements (specify)

\_\_\_\_\_  
 \_\_\_\_\_

Other Investments (specify)

\_\_\_\_\_  
 \_\_\_\_\_

6. The Professional licenses or registrations (including bar admissions, accounting certificates, real estate brokerage licenses, broker-dealer or investments advisory registrations) held by me are as follows:

Registration	Year Received	Is License or Registration Still Effective?
_____	_____	_____
_____	_____	_____
_____	_____	_____

7. My educational background, including degrees obtained and date of attendance:

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8. (a) Neither I nor any of my affiliates now have or have had any material relationship with the Trust or any of its affiliates, are not affiliates of the Trust, and no such relationship is contemplated in the future, except as follows:

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(b) The amounts of compensation received or to be received as a result of the material relationship(s) described in Item 8(a)(including any compensation received or to be received in connection with this transaction) are as follows:

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9. Neither I nor any of my affiliates own beneficially any interest in the Trust except as follows:

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10. I have received and read the Trust's Memorandum dated April 10, 2002 and Exhibits thereto and have reviewed it with the Offeree.

11. Other comments or disclosures:

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\_\_\_\_\_  
Purchaser Representative Signature

\_\_\_\_\_  
Type Purchaser Representative Name

\_\_\_\_\_  
Firm Name

\_\_\_\_\_  
Street Address

\_\_\_\_\_  
City and State

(\_\_\_\_\_)\_\_\_\_\_  
Telephone

Acknowledgement of Investor(s)

I acknowledge receipt of the foregoing disclosures this \_\_\_\_\_ day of \_\_\_\_\_, 2002, and this represents my acknowledgment in writing to the Trust that I have read the foregoing and desire that the above stated person serve as my Purchaser Representative with respect to the offering of the Trust's Certificates.

\_\_\_\_\_  
Investor's Signature

\_\_\_\_\_  
Investor's Signature

\_\_\_\_\_  
Investor's Signature

EXHIBIT “D”

MONITORING RECEIVABLE FINANCING AGREEMENT

RESIDENTIAL MONITORING RECEIVABLE ACQUISITION AGREEMENT

**MCGINN SMITH ACCEPTANCE CORP.**

and

**Palisades Group, LLC**

APRIL 12, 2002

THIS RESIDENTIAL MONITORING RECEIVABLE ACQUISITION AGREEMENT (this "Agreement") is dated this 12th day of April, 2002, by and between, Palisades Group, LLC, the undersigned alarm company ("Palisades"), and McGinn Smith Acceptance Corp., a New York corporation, its successors and assigns (the "Agent").

#### RECITALS

Palisades has requested the Agent to acquire Contracts (as hereinafter defined) owned, acquired or originated by Palisades covering mandatory Obligations (as hereinafter defined) of Obligors (as hereinafter defined) for alarm monitoring services provided or arranged for by Palisades .

NOW, THEREFORE, for good and valuable consideration and in consideration of the agreements between and among the parties hereto, Agent and Palisades hereby agree as follows:

SECTION 1. Definitions. As used in this Agreement, the terms listed below shall have the following meanings:

"Affiliates" means any person or entity affiliated with, controlled by, or under common control with Palisades or any such persons or Palisades's immediate family

"Central Station" means an independent central station monitoring company which Palisades may elect to utilize to provide monitoring services to Obligors which is approved by the Agent.

"Contract" means a Monitoring Contract owned by Palisades , including, without limitation, the Obligations arising thereunder or related thereto.

"Acquired Contract" means any Contract listed on a schedule of Contracts delivered by Palisades to the Agent which have been Acquired through the Agent under this Agreement, including any Contract which constitutes a Replacement Contract under Section 12c hereof.

"Acquired Period" means, for any Acquired Contract on any date, the remaining Mandatory Period of such Acquired Contract on such date.

"Funding Date" means the date identified as the Funding Date on Exhibit "B" attached hereto and incorporated herein for all purposes.

"Funding Price" means the amount identified as the Funding Price on Exhibit A attached hereto and incorporated herein for all purposes.

"Lock Box" means the processing and data capture service selected by the Agent after notice to Palisades to receive Obligor Payments on the Acquired Contracts. Initially, the Lock Box shall be Post Office Box 123, Albany, NY 12203-0123.

"Mandatory Obligation" means an agreement by an Obligor as set forth in a Contract which requires the Obligor to make fixed payments for monitoring services for a Mandatory Period.



"Mandatory Period" means, for any Acquired Contract, the length of time, not to exceed 60 months, during which such Acquired Contract obligated the Obligor thereon to pay its Mandatory Obligation.

"Monitoring Contract" means an enforceable and assignable contractual agreement, sale or lease instrument, chattel mortgage, security agreement, promissory note or any other title retention or lien instrument, or any other agreement, providing for the obligation to pay for residential electronic monitoring services, which agreement or instrument is more commonly known as a "monitoring service agreement", "alarm monitoring agreement" or "security alarm monitoring agreement".

"Monitoring Revenue Payment" means, for any Acquired Contract, the monthly, quarterly, semi-annual or annual payment required to be made on such Acquired Contract by an Obligor pursuant to a Mandatory Obligation through the Mandatory Period.

"Monitoring Revenue Stream" means, for any Acquired Contract, the aggregate of all payments made or required to be made by an Obligor pursuant to a Mandatory Obligation.

"Net Funding Price" has the meaning specified on Exhibit A.

"Obligations" means, for any Acquired Contract, any and all amounts due or to become due for electronic monitoring services under such Acquired Contract.

"Obligor" means, for any Acquired Contract, any party liable for payment and performance of Obligations under such Acquired Contract.

"Obligor Payments" means, for any Acquired Contract, the monthly, quarterly, semi-annual or annual payments actually made by an Obligor on account of a Monitoring Revenue Payment and received in the Lock Box.

"Portfolio" means, at any time, all Acquired Contracts with outstanding Obligations at such time.

"Scheduled Amount" means the Monitoring Revenue Payments as set forth in Exhibit A-1 attached hereto.

SECTION 2. Acquisition of Contracts. As of the Funding Date, the Agent has arranged for the Acquisition of those Contracts set forth on Schedule B attached hereto and forming a part of this Agreement in accordance with the terms and conditions of this Agreement. Nothing contained in this Agreement shall preclude the Agent from acquiring contracts from other sources. Palisades may in the course of its business tender Contracts to third parties (other than the Agent) for purchase or financing or retain Contracts for its own account. Palisades agrees to sell the Acquired Contracts to the Agent as set forth herein and the Agent agrees to remit to Palisades the Funding Price for each Acquired Contract presented by Palisades on the Funding Date on the terms set forth in Exhibit A. In connection with the acquisition provided herein, the Agent shall be entitled to all payments and other property constituting proceeds of the Collateral.

SECTION 3. Contract Documentation. With respect to any Contract Palisades wishes to sell hereunder, Palisades shall, at the time of acquisition thereof by the Agent, provide to the Agent (a) the original executed Contract, executed by the Obligor, containing all of the terms and conditions of the monitoring agreement with the Obligor; and (b) evidence that the Obligor has received a Credit Score (as hereinafter defined) of not less than 575. For purposes hereof, "Credit Score" means, with respect to an Obligor, the credit score of such Obligor, as determined pursuant to the generic risk scoring systems developed by Fair Isaac & Company based upon information regarding such Obligor provided by Equifax, Inc.

SECTION 4. Agent Approval Required. Palisades understands and agrees that prior to funding any Contract the Agent will audit such Contract for compliance with the Agent's credit underwriting and other due diligence standards, which standards shall be at the sole discretion of the Agent. The Agent shall have the right to refuse to acquire hereunder any Contract submitted for Acquisition hereunder by Palisades which does not meet such credit underwriting and due diligence standards or which is not documented as required by this Agreement and Agent shall notify Palisades within 24 hours of such refusal. Palisades shall have five business days (or such longer period as may be verbally agreed upon by the Agent and Palisades) in which to cure any purported deficiency. If Palisades cannot or will not cure such purported deficiency to the satisfaction of the Agent, the Agent shall promptly reject and return such Contract to Palisades. The Agent's approval of any Contract for Acquisition hereunder shall be deemed to have occurred if Palisades is not informed of any rejection thereof on any submitted Contract within five business days following receipt thereof by the Agent. Each approved Contract shall be assigned a Receivable Approval Number by the Agent identifying the approved Contract.

SECTION 5. Approved Contract Forms. Each Acquired Contract shall be on a form substantially similar to those attached hereto as Exhibit C, which forms may be modified from time to time by Palisades with the written consent of the Agent. No Contract shall be considered an Acquired Contract unless, at a minimum, (a) it has been signed by the Obligor thereon, (b) an original copy thereof has been delivered to the Agent, (c) it clearly sets forth the periodic monitoring fee payable thereunder and requires the Obligor to pay such monitoring fee through the term of the Contract and (d) the Contract is assignable by its terms. If, for whatever reason, the Agent mistakenly acquires a Contract not meeting the above eligibility standards, Palisades shall, upon notice, promptly either replace such Contract with a Contract meeting such eligibility standards (as well as the Agent's ordinary credit underwriting and due diligence standards) or repay to the Agent the Funding Price with respect to such Contract.

SECTION 6. Acquisition Terms and Procedure. In accordance with the terms of this Agreement, the Agent shall have the obligation to pay to Palisades the Funding Price, as shown on Exhibit A, for Contracts presented by Palisades to the Agent on the Funding Date which the Agent has deemed eligible for funding hereunder. At the time Agent pays the Funding Price to Palisades, Palisades shall assign the related Monitoring Revenue Stream to the Agent by executing an assignment in favor of the Agent in such form as may be prescribed by the Agent.

SECTION 7. Representations and Warranties of Palisades. To induce the Agent to acquire Contracts hereunder, Palisades hereby makes the following representations and warranties to the Agent, each and all of which shall survive the execution and delivery of this Agreement:

(a) Existence; Compliance with Law; Executive Offices. Palisades (i) is a limited liability company duly organized, validly existing and in good standing under the laws of the jurisdiction in which it was organized, (ii) is duly qualified as a foreign corporation and in good standing under the laws of each jurisdiction where the conduct of its business requires such qualification, (iii) has the requisite power and authority to conduct its business as now, heretofore and proposed to be conducted, (iv) has all necessary licenses, permits, consents or approvals from or by, has made all necessary filings with and has given all necessary notices to, all governmental authorities having jurisdiction, to the extent required for such operation and conduct and (v) is in compliance with its certificate of incorporation and by-laws. The chief executive office and principal place of business of Dealer is at 3 Post Road, Oakland, NJ 07436.

(b) Power; Authorization; Enforceable Obligations; Solvency. The execution, delivery and performance by Palisades of this Agreement and all instruments and documents to be delivered by Palisades pursuant to this Agreement, and the creation of all liens and security interests provided for herein: (i) are within Palisades 's corporate or partnership power; (ii) have been duly authorized by all necessary or proper corporate action on the part of Palisades , including the consent of shareholders where required; (iii) do not contravene any provision of Palisades 's certificate of incorporation or bylaws; (iv) do not violate any law or regulation or any order or decree of any court or governmental instrumentality; (v) do not conflict with or result in the breach of, or constitute a default under, any indenture, mortgage, deed of trust, lease, agreement or other instrument to which Palisades is a party or by which Palisades or any of its property is bound; and (vi) do not require any filing or registration with, or the consent or approval of any governmental body, agency, authority or any other person or entity, which has not been made or obtained previously. This Agreement has been duly executed and delivered by Palisades and constitutes its legal, valid and binding obligation, enforceable against Palisades in accordance with its terms.

(c) No Default; No Burdensome Restrictions. Palisades is not in default with respect to any contract, agreement, lease or other instrument to which it is a party or by which it or any of its property is bound and has not received any notice of default pursuant to any such contract, agreement, lease or other instrument. No Event of Default has occurred or is continuing. No contract, lease, agreement or other instrument to which Palisades is a party or by which it or any of its properties is bound, and no provision of applicable law or governmental regulation, has any reasonable likelihood of having a material adverse effect on Palisades 's ability to perform its obligations hereunder.

(d) No Litigation. No action, claim or proceeding is now pending or, to the knowledge of Palisades , threatened against Palisades at law, in equity or otherwise, before any court, board, commission, agency or instrumentality of any federal, state or local government or any agency or subdivision thereof or before any arbitrator or panel of arbitrators which, if adversely determined, would result in a liability of Palisades in an amount greater than \$10,000, nor, to the knowledge of Palisades , does a state of facts exist which might give rise to any such proceedings.

(e) Full Disclosure. No information contained in this Agreement or any other agreement or writing executed or issued by Palisades or any statement furnished by or on behalf of Palisades in connection with this Agreement or any other agreement or writing executed or issued in connection with this Agreement, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained herein or therein not misleading.

(f) Compliance with Law. With respect to each Acquired Contract, (i) every action taken by Palisades, (ii) every agreement with an Obligor, form, letter, notice, statement or other material used by Palisades in connection with the performance of its duties and obligations in connection with such Acquired Contract, (iii) every action taken by Palisades in connection with each sale resulting in an Acquired Contract and (iv) all documentation in connection therewith, complies with all applicable requirements of law.

(g) Contracts.

(i) Each Acquired Contract (A) is, immediately preceding the time of its being acquired hereunder, owned by Palisades free and clear of any and all liens and security interests in favor of any person or entity; (B) arose in connection with a bona fide final sale and delivery of a Security Alarm System in the ordinary course of business or was a renewal of a Contract so arising; (C) is for a liquidated amount as stated in such Contract; (D) is not subject to any defense, deduction, offset or counterclaim; (E) constitutes the valid, legal and binding obligations of the parties thereto, enforceable in accordance with its terms; and (F) complies with all federal, state and local laws, rules and regulations.

(ii) With respect to each Acquired Contract, (A) the Obligor thereon has acknowledged that Palisades has completed all necessary work contracted for and has received a notice of his rights of rescission under federal and state law with respect thereto, (B) the Obligor has not exercised any such rescission rights, (C) not less than five business days had expired between the time such notice of rescission rights was signed by such Obligor and the Funding Date, (D) the Obligor thereon is obligated and liable for payment of the amounts stated in such Contract, and has no known reason to exercise any right of rejection, return, offset, defense, counterclaim, discount or deduction against Palisades or any other security alarm dealer.

(iii) Each Acquired Contract contains valid mandatory deferred payment obligations for the mandatory monitoring of the security system purchased, leased or owned by the Obligor, legally enforceable in accordance with those terms, representing actual and bona fide agreements to perform and accept residential monitoring services.

(iv) No payment under any Acquired Contract is, as of the Funding Date, delinquent, in default or subject to any dispute. All statements made in any Acquired Contract, including names and addresses, locations and descriptions of property or services, down-payments and unpaid balances, are in all respects true, complete and accurate. All signatures and endorsements that appear on the Acquired Contracts, or any agreement or instrument relating thereto, are genuine and all signatories and endorers, if any, have full legal capacity to contract.

(v) All of Palisades 's obligations to the Obligor on any Acquired Contract, with the exception of future monitoring services and maintenance or service obligations, have been completed and fulfilled in their entirety. No Obligor on any Acquired Contract has been induced to enter into such Contract by fraud or misrepresentation as to price, quality of products or services.

SECTION 8. Palisades Covenants. Palisades covenants and agrees as follows:

(a) Palisades shall not, without the prior written consent of the Agent, modify the terms of any Acquired Contract.

(b) Palisades shall deliver the original signed version of each Acquired Contract to the Agent upon the Agent's payment of the Funding Price.

(c) Palisades shall take all reasonable steps, including, without limitation, ensuring that all payments with respect to the Acquired Contracts are remitted to the Lock Box, to assure that the Agent will timely receive the Scheduled Amounts. Palisades specifically agrees that it will use its best efforts consistent with generally accepted industry practice in its market area to bill and collect the Monitoring Revenue Stream. If, for any reason, the Agent deems it necessary to directly bill and/or collect the Monitoring Revenue Stream or any Monitoring Revenue Payment, Palisades shall, in addition to any of its other obligations under this Agreement, cooperate with the Agent and not interfere in any way with the Agent's actions. In furtherance of this obligation, Palisades has executed and delivered to the Agent a limited power of attorney (the "Power of Attorney") in the form attached hereto as Exhibit D, designating the Agent as Palisades 's attorney-in-fact with respect to all matters in connection with the enforcement of the Agent's right to receive the Monitoring Revenue Stream in accordance with the terms and conditions of this Agreement, including instituting any legal or equitable proceedings against an Obligor, subject to the terms of the Power of Attorney.

(d) Palisades shall be responsible for the payment of any state and local taxes due with respect to Acquired Contracts.

(e) Palisades shall not assign, or attempt purport to assign, to any other party any security interest in or other benefit or interest in the Collateral.

(f) Palisades shall provide for (i) the monitoring of the alarm system of each Obligor under each Acquired Contract and (ii) the servicing, repair, warranty service or replacement, and service calls required by each Acquired Contract.

(g) For a period of one year from the date of this Agreement, if any representation or warranty with respect to any Acquired Contract proves to have been incorrect or if Palisades breaches any of its covenants with respect to any Acquired Contract, without limiting any other remedy which the Agent may have hereunder or under applicable law, Palisades shall, within 30 days after either learning thereof or receiving notice thereof from the Agent, cure any such breach. If such breach is incapable of being cured or Palisades does not cure such breach, Palisades shall either (i) replace the Acquired Contract as to which such breach exists with another Contract (which shall thereafter be considered an Acquired Contract) meeting the

Agent's credit underwriting and due diligence standards and with a Monitoring Revenue Stream at least equal to the Monitoring Revenue Stream of the Acquired Contract being replaced or (ii) pay to the Lock Box each month an amount equal to the Monitoring Revenue Stream of such Acquired Contract. Palisades obligation hereunder shall be for a period of one year from the date of this Agreement.

(h) In addition to the undertakings specifically provided for in this Agreement, Palisades shall do all other things and sign and deliver all other documents and instruments reasonably requested by the Agent, to perfect, protect, maintain and enforce the security interest of the Agent and the first priority of such security interest, and all other rights granted pursuant to this Agreement or any other present or future agreement between Palisades and the Agent. Such acts shall include, without limitation, indicating on the books and records of Palisades that all Acquired Contracts have been acquired hereunder by the Agent and are subject to a security interest pursuant hereto, providing the Agent copies of any documentation relating to the Acquired Contracts, the filing of financing statements, continuation statements, amendments and termination statements under the Uniform Commercial Code and the delivery of any document the physical possession of which the Agent, in its sole discretion reasonably exercised, deems necessary or advisable in connection with its Acquisition of Acquired Contracts. To the extent permitted by law, Palisades irrevocably authorizes the Agent to execute alone any Acquisition statement or any other document or instrument which the Agent, as attorney in fact for Palisades, in its sole discretion, deems necessary to perfect, protect or enforce any right or security interest granted to the Agent pursuant to this Agreement and authorizes the Agent to sign Palisades's name on the same.

(i) Palisades shall not, except following 30 days prior written notice to the Agent, (i) transfer its chief executive offices, change its principal mailing address, conduct any of its business or maintain records relating to Acquired Contracts at a new location or (ii) change its corporate or trade name.

(j) Palisades shall notify the Agent in writing, promptly upon learning thereof, of any lawsuit or administrative proceeding involving amounts in excess of \$10,000 affecting Palisades, whether or not the claim shall be considered by Palisades to be covered by insurance.

(k) Palisades shall not create or permit any security interest in and to any Acquired Contract except those in favor of the Agent pursuant hereto.

SECTION 8b. Palisades's Access to the Contracts. All parties hereto agree that the Acquired Contracts and related documents in the custody of the Agent or its designee shall be available to Palisades, its agents or any person authorized by Palisades to inspect or review them.

SECTION 9. Representations and Warranties of the Agent. The Agent hereby represents and warrants, to the best of its knowledge, to Palisades as follows:

(a) The Agent is duly organized and licensed, validly existing, authorized to do business in, and in good standing under the laws of each state where it is required to be organized, authorized and licensed to own its properties and conduct its business.



(b) The execution, delivery and performance by the Agent of this Agreement, the consummation by the Agent of the transactions contemplated hereby and in compliance with the provisions of this Agreement do not and will not (i) conflict with or violate any terms and provisions of the Agent's organization or governing documents; (ii) require the consent of any party (which has not heretofore been received) and will not result in a breach of or default under any loan or credit agreement, indenture, business arrangement, mortgage, guarantee or other agreement or instrument to which the Agent is a party or by which it is bound; or (iii) conflict with or violate any existing law, rule, regulation, judgment, order or decree of any governmental instrumentality, agency or court having jurisdiction over the Agent, or any of its properties.

(c) There is no action, litigation, suit, proceeding, inquiry or investigation, either at law or in equity or before any court, public body or board, pending or threatened, against or affecting the Agent which involves the possibility of materially or adversely affecting the property, business, profits or condition (financial or otherwise) of the Agent's business.

(d) The Agent has the legal right to enter this Agreement and the financial ability to perform all of its obligations under this Agreement.

#### SECTION 10. Non-Assumption of Liability and Indemnity.

(a) Neither the Agent nor any of its assigns assume any obligations or liabilities of Palisades with respect to or concerning the Acquired Contracts, including, without limitation, any liability for equipment, monitoring duties and responsibilities, warranties, service agreements and other agreements owed to any Obligor. In addition to all other remedies available to the Agent under this Agreement or applicable law, Palisades shall indemnify, defend and hold harmless the Agent and its assigns from and against any claim, suit, loss, liability or expense, including court costs and reasonable attorney's fees, incurred by the Agent or its assigns, arising from or connected with any Acquired Contract and/or the services to be provided, so long as such claim, suit, loss, liability or expense is not a result of any action by the Agent. Palisades does not assume any obligation or liability of the Agent with respect to or concerning the marketing or the subsequent management of the Monitoring Revenue Stream, so long as such claim, suit, loss, liability or expense is not related to the duties of Palisades. This indemnity includes strict liability proceedings by Obligors. Palisades's indemnification hereunder shall be covered by insurance maintained by Palisades as provided for in Section 20 hereof.

(b) The Agent shall indemnify, defend and hold harmless Palisades from and against any claim, suit, loss, liability or expense, including court costs and attorney's fees, incurred by Palisades arising from or connected with the marketing and subsequent management of the Monitoring Revenue Stream, so long as such claim, suit, loss, liability or expense is not related to the duties of Palisades.

(c) Upon the written request of the party to be indemnified hereunder, the other party shall accept a tender of defense of any such proceeding.

SECTION 11. Billing, Payment Processing, Reserves and Monthly Accounting.

It shall be the responsibility of Palisades to perform and provide for the following with respect to each Acquired Contract:

(a) Palisades 's Obligations Prior to Funding Date. Palisades shall perform or arrange for (including through the use of subcontractors) the following responsibilities and duties prior to the Funding Date:

(i) Preparation of Obligor Billing Statements. Design and prepare an Obligor monthly billing statement which provides for the disclosure of (A) the contractual payment due, (B) any amounts past due, (C) applicable state and local tax on monitoring services, for Obligors who reside in States where monitoring services are taxable, (D) late charges, and (E) miscellaneous charges which may be charged under Acquired Contracts.

(ii) Remittance Lock Box Payment Processing. Design and prepare a system to assure that each direct billing invoice be accompanied by a return payment envelope which directs all Obligor Payments directly to the Lock Box, including, without limitation, making all reasonably necessary arrangements and signing all reasonably necessary documents associated with the on-going remittance processing performed by the Lock Box.

(iii) Pre-Sale Audit. Audit each Acquired Contract prior to submission for Acquisition hereunder and before delivery to the Agent for assignment and funding, including, without limitation, (i) determining that the actual contract terms for each Acquired Contract are consistent with the terms pre-approved by the Agent, (ii) reviewing each document for complete signatures, (iii) preparing a file folder on each Acquired Contract and (iv) providing written proof that each Obligor has paid cash for his Security Alarm System, or in the alternative, written evidence that Obligor has obtained financing for his Security Alarm System from a reputable financial institution.

(b) Palisades 's Obligations Following Funding Date. Palisades shall perform or arrange for (including through the use of subcontractors) the following responsibilities and duties following the Funding Date:

(i) Monthly Accounting and Reports. Agent shall provide to Palisades a report twice weekly which provides information relative to all Obligor payments received in that period identified by Obligor name and Obligor account number. Provide to the Agent a monthly report on or before the 15th business day of each calendar month which provides the following information with respect to each Acquired Contract: (A) the name and account number of the Obligor thereunder, (B) the current balance thereof as of the end of the reporting period, (C) the contractual amount past due thereon, and (E) the amount the Obligor thereon is past due and the number of days delinquent. Delinquency categories must be identified as (1) current, (2) 10-29 days delinquent, (3) 30 days delinquent, (4) 60 days delinquent and (5) 90 or more days delinquent.



(ii) Monitoring Service Taxes. (A) Determine which Obligor must be assessed state and local sales taxes on their monitoring service and the amount thereof and (B) be responsible to the governmental taxing authority having jurisdiction over the Obligor, or Palisades, relating to the payment of such taxes. The Agent shall be responsible for the proper payment of any such taxes under this Agreement from the Lock Box collections.

SECTION 12a. Allocation of the Lock Box Payments. As set forth above, the Agent shall be entitled to all collections with respect to the Acquired Contracts. For each calendar month following the Funding Date (except following the occurrence and during the continuation of an Event of Default (as hereinafter defined)), the Agent shall be entitled to the Scheduled Amount set forth on Exhibit A-1 hereto opposite such month, which amounts shall be paid monthly from Obligor Payments collected by the Lock Box. Out of the funds constituting the Scheduled Amount each month the Agent shall pay the Central Station to cover the cost of the monitoring; and shall pay all costs associated with the billing and collection of the Acquired Contracts. If the Obligor Payments collected for any month by the Lock Box are less than the Scheduled Amount for that month (plus any deficit existing from any prior months any remaining shortfall for that month will be paid out of the first Obligor Payments received by the Lock Box in the following month. Thereafter, the Scheduled Amount due the Agent for that month will be paid from the balance of the Obligor Payments received by the Lock Box that month.

SECTION 12b. Recourse and Guarantee. Notwithstanding any other agreements herein described, the Monitoring Revenue Stream acquired by the Agent hereunder, to the extent of all Scheduled Amounts, shall be on a full recourse and guarantee basis for a period of one year under the terms and conditions set forth herein. Palisades hereby irrevocably and unconditionally guarantees to the Agent the full and timely payment of all sums constituting the Scheduled Amounts as such Scheduled Amounts become due hereunder for a period of one year from the date of this Agreement.

SECTION 13. Intentionally Omitted.

SECTION 14. Intentionally Omitted.

SECTION 15. Intentionally Omitted.

SECTION 16. Contracts and Obligor Servicing and Monitoring. The Agent understands and agrees that Palisades may elect to utilize the services of an independent, third party Central Station to perform the monitoring services due to Obligor under the Acquired Contracts. Palisades and the Agent further agree that (a) the Agent shall be a third party beneficiary to any monitoring service contract executed between Palisades and any Central Station, (b) Palisades shall, or shall obtain the agreement of the Central Station to, perform all monitoring services under the Acquired Contracts in accordance with generally accepted industry practices, (c) Palisades shall, or shall obtain the agreement of the Central Station to, in all respects service, bill, perform collection efforts and enforce the Agent's contractual right to receive payment of the Monitoring Revenue Stream associated with each Acquired Contract, on the same basis as it would service its own contracts or leases, in a manner which meets all of the requirements set forth in Section 11 above, (d) Palisades shall not, or shall obtain the

agreement of the Central Station not to, commingle accounts, (e) in the event of a material uncured default of Palisades or the Central Station under subparagraph (b), (c) or (d) of this Paragraph 16, and the providing the notice of such in writing to Palisades or the Central Station, Palisades shall, and shall obtain the agreement of the Central Station to, accept reasonable instructions from, perform reasonable monitoring services for and transfer monitoring services to others (at the expense of Palisades ), at the sole direction and instruction of the Agent; provided that Palisades 's liability under this subparagraph 16(e) shall not exceed \$2.00 per month for each Obligor transferred.

SECTION 17. Transfer of Monitoring Services. Palisades agrees, and shall obtain the agreement of the Central Station, that if for any reason it is unable to perform its monitoring duties and responsibilities to the Obligors under the Acquired Contracts, it will immediately notify the Agent of such fact and will promptly arrange for the orderly transfer of monitoring services to a third-party alarm monitoring service company selected in the sole discretion of the Agent. The Agent shall have the right to unilaterally demand and effect the immediate transfer of monitoring services on Acquired Contracts from Palisades or the Central Station to a third-party monitoring service company, with the complete cooperation of Palisades and/or the Central Station, upon the happening of any of the following events:

- (a) The filing of a petition for bankruptcy protection with respect to Palisades or the Central Station, either voluntary or involuntary;
- (b) Upon Palisades or the Central Station, or any of their principal officers, being found guilty of any felony or upon a finding of liability in any criminal or civil action involving impropriety in business dealings or operations which, in either case, materially affects the operation of Palisades or the Central Station, or the performance of the Acquired Contracts;
- (c) Upon the abandonment of monitoring service operations by Palisades or the Central Station. Abandonment shall be deemed to have occurred should Palisades or the Central Station fail to provide monitoring services to Obligors for a period of 72 hours or longer, unless such interruption in service has been caused by acts of force majeure, beyond the control of Palisades or the Central Station; or
- (d) Upon the occurrence of a material default hereunder, or under Palisades 's contract with the Central Station, which results in the inability of Palisades or the Central Station to substantially perform under or in accordance with this Agreement.

For the purposes of this Section 17, transferring of monitoring services shall include all manual and computerized files, records and connected telephone numbers relating to Obligors and the Acquired Contracts. Upon the occurrence of an event authorizing the transferring of monitoring services to a third-party monitoring service company, neither Palisades nor the Central Station shall take any action to circumvent, disrupt, impair or diminish the relationship between the new monitoring service company and the Obligors, and Palisades shall not, and shall ensure that any of its officers, directors or shareholders holding an more than 10% of its stock shall not, solicit, sell to or accept monitoring services orders from or on behalf of any Obligor on any Acquired Contract prior to the expiration of the initial Mandatory Period of such Obligor s Acquired Contract. Palisades agrees that any breach of this provision would

cause irreparable injury for which money damages would not be adequate compensation to the Agent and, accordingly agrees that the Agent may apply to a court of equity for injunctive relief without the necessity of demonstrating irreparable injury and without bond. If, during the term of this Agreement, or during the term of any Contract purchased hereunder, Palisades or the Central Station finds it necessary or desirable to transfer its monitoring servicing responsibilities to a third party monitoring company, such transfer shall be subject to the approval of the Agent, such approval not to be unreasonably withheld, as long as the third-party monitoring company meets all of the reasonable due diligence requirements of the Agent then in effect. If such transfer is initiated by Palisades and approved by the Agent, Palisades shall have the right to re-transfer the account servicing back to its own facility at such time as Palisades is able to perform monitoring services.

SECTION 18. Events of Default. Any one or more of the following shall constitute an "Event of Default":

(a) Any of Palisades 's representations or warranties hereunder shall have been untrue when made or Palisades shall fail to comply with any covenant or other agreement of Palisades herein and the same is not cured within 30 days following Palisades 's knowledge thereof or notice thereof from the Agent in accordance with the provisions of this Agreement;

(b) An "Event of Default" shall occur and be continuing under any other Acquisition agreement between the Agent and Palisades ;

(c) Palisades shall dissolve, cease doing business or transfer a material part of its assets to a third party;

(d) A proceeding shall be instituted by or against Palisades under any bankruptcy or insolvency law and shall remain unstayed or undismissed for 30 consecutive days; or any of the assets of Palisades shall be attached, seized or levied upon, or come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors of Palisades ; or a motion or application for the appointment of a receiver, trustee or custodian for any of the assets of Palisades shall have been filed and remain unstayed or undismissed for 30 days; or a final judgment or judgments after the expiration of all times to appeal therefrom for the payment of money in excess of \$50,000.00 in the aggregate shall be rendered against Palisades and the same shall not be (i) fully covered by insurance or (ii) vacated, stayed, bonded, paid or discharged for a period of 15 days; or a tax lien shall have been filed against property of Palisades which shall remain unsatisfied or is not released within 30 days; or any person other than the Agent shall obtain any lien or security interest in or to, or any ownership interest in, any Acquired Contract;

(e) Palisades shall fail to repurchase or replace a Acquired Contract as required under Sections 8g and 12b hereof;

(f) Palisades shall have breached any warranty, covenant or representation made by Palisades pursuant to the terms of this Agreement;

(g) Failure by Palisades and/or the Central Station to perform their monitoring duties and responsibilities to the Obligors under the Acquired Contracts; or

(h) Failure by Palisades to make any required payment to the Central Station within 30 days after such payment is due.

If an Event of Default shall occur and be continuing hereunder, the Agent at its option, with or without notice to Palisades, in its sole and absolute discretion, may exercise all of the rights and remedies of a secured party under the Uniform Commercial Code with respect to the Collateral until such time as all Scheduled Amounts, all costs and expenses of the Agent in exercising its rights hereunder and all other obligations of Palisades to the Agent hereunder (collectively, "Dealer Obligations") shall have been received. In addition, upon the occurrence of an Event of Default described in paragraph (d) above, the Agent shall be entitled to complete relief from the automatic stay in any case under the bankruptcy laws for so long as any Scheduled Amounts remain unpaid. Upon the occurrence of any such Event of Default, Palisades hereby affirmatively and knowingly, after consulting with counsel, waives any and all defenses to a motion for relief from the automatic stay that the Agent may make with respect to any disposition of any or all of the Collateral. Notwithstanding anything to the contrary set forth in this Agreement, during the continuation of any Event of Default, the Agent shall be entitled to apply the entire amount of the Obligor Payments received by the Agent, first to any costs or expenses incurred by the Agent in connection with this Agreement or the Acquired Contracts, including, without limitation, the payments due to the third party monitoring service company chosen by the Agent to service the Acquired Contracts, and second to the balance of the Scheduled Amounts due to the Agent, until such Scheduled Amounts are paid in full.

SECTION 19. Independent Contractors. The parties hereto shall be deemed in all respects to be independent contractors and not employees, agents, legal representatives or partners of one another. The parties hereto shall not hold themselves out as having the power or right to pledge the credit of or assume or create any liabilities, obligations or responsibilities in the name of or binding on each other outside the scope of this Agreement.

SECTION 20. Insurance. During the term of this Agreement or the term of the Acquired Contracts, whichever is longer, the entity performing monitoring services to the Obligors, whether Palisades or the Central Station, shall maintain comprehensive general liability insurance which cannot be canceled with less than 30 days notice to the Agent, including errors and omissions coverage on monitoring operations, in the minimum amount of \$1,000,000.00 covering bodily injury and property damage resulting from the performance of monitoring services under Contracts. Palisades shall deliver to the Agent a certificate of such insurance naming the Agent as an additional insured.

SECTION 21. Records and Reports. Palisades shall keep full and accurate records on all Acquired Contracts and shall reflect accurately on its books and records the transaction contemplated hereby. Such records maintained by Palisades may be examined by a representative of the Agent upon reasonable notice in writing. Records on each Acquired Contract shall be kept by Palisades and/or any Central Station for the period required by law.

SECTION 22. Intentionally Omitted.

SECTION 23. Sale or Transfer of Palisades. In the event of a sale or transfer of a controlling ownership interest in Palisades 's business, Palisades shall, as a condition of such sale, transfer or disposition, take all steps requested by the Agent to ensure that Palisades 's obligations under the Acquired Contracts and this Agreement shall not in any way be impaired or disrupted by such sale, transfer or disposition and that this Agreement shall continue as provided herein and shall be accepted and agreed to by the party to whom such sale, transfer or disposition has been made.

SECTION 24. Severability. If any provision of this Agreement shall be invalid, illegal or unenforceable, the validity, legality and unenforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Notwithstanding anything to the contrary herein contained, to the extent that the total of the Scheduled Amounts allocated to interest, received in any year exceeds the maximum interest rate permitted by law, then the amount so determined to be in excess shall be applied in reduction of the total Scheduled Amounts allocated to principal as set forth in Exhibit A-1 attached hereto.

SECTION 25. Assignment.

(a) Palisades shall not assign any of its rights or responsibilities under this Agreement (other than its rights hereunder to contract with a Central Station) without the prior written consent of the Agent, which shall not be unreasonably withheld. The Agent may assign any or all of its rights and responsibilities under this Agreement without the consent of Palisades .

(b) Any assignment to the Agent of any Acquired Contract shall be subject to the terms of this Agreement, notwithstanding anything to the contrary in the Agreement of Assignment or in any Acquired Contract.

SECTION 26. Applicable Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York. Any and all disputes arising either under this Agreement or in relation to any services or obligations to be provided pursuant to this Agreement or any Account Agreement or other dispute between the parties shall be resolved exclusively in the State Courts of New York in Albany County, New York. This section shall survive the termination of this Agreement

SECTION 27. Notices. Every notice, report, remittance, consent or any instrument required or permitted to be given or made pursuant hereto shall be in writing and may be given by sending the same by facsimile, hand or courier delivery to the following addresses of the parties indicated herein and shall be effective when received:

If to Palisades :                    Thomas J. Few  
   Palisades Group, LLC  
   3 Post Road  
   Oakland, NJ 07436

If to the Agent:                    Timothy M. McGinn  
   McGinn Smith Acceptance Corp.  
   99 Pine Street - 5th Floor  
   Albany, NY 12207-3167

The address at which notice may be given may be changed by giving notice of such change to the other party.

SECTION 28. Confidential Information; Non-Disclosure.     Agent and Palisades recognize that due to the nature of Palisades's association and relationship with Agent, Palisades will have access to , will acquire, and may assist in developing confidential and proprietary information relating to the Acquired Contracts and the business operations of Agent. Palisades acknowledges that all such information and its use has been and will continue to be of central importance to the business of Agent and that the use of such information by Palisades, its Affiliates or their respective shareholders, officers, directors, or employees for its or their own account, or the disclosure of it to or its use by others would cause substantial loss or irreparable harm to Agent. Palisades, its Affiliates and their respective shareholders, officers, directors, and employees shall not use for its or their own account, or disclose after the date hereof to any person, corporation, firm, partnership, association or other entity, directly or indirectly; (a) any information regarding the Acquired Contracts, Monitoring Receivable Acquisition Agreement and/or Obligors or any of them; (b) any other information relating to Agent's business; and (c) any other information the disclosure of which would have an adverse effect on the business of Agent. In addition, Agent will not disclose any information relating to Palisades's business which Palisades and Agent shall agree is confidential and the disclosure of which would have an adverse effect on the business of Palisades. This section shall survive the termination of this Agreement.

SECTION 29. Cross Collateralization.     Palisades acknowledges that it has entered into the following Monitoring Receivable Acquisition Agreements with the Agent:

1. Residential Monitoring Receivable Acquisition Agreement dated September 14, 2001
2. Residential Monitoring Receivable Acquisition Agreement dated November 21, 2001.

The above listed Agreements are herein collectively referred to as the "Acquisition Agreements". Palisades agrees that the Agent, in the event of a shortfall in any month of the Scheduled Amounts due pursuant to the Acquisition Agreements, shall have the right to offset such shortfall out of the Available Monthly Cash Flow collected pursuant to any of the other Acquisition Agreements.

SECTION 30. Expenses.     It shall be the responsibility of Palisades to pay for certain expenses incurred by the Agent in connection with this Agreement (the "Expenses"). The

Expenses include the cost of document preparation, litigation and franchise tax searches, liens, corporate status certificates, filing fees, all costs and fees associated with the initial Lock Box set-up and ongoing remittance processing performed by the Lockbox Agent in accordance with Section 11a hereof, and any other incidental fees reasonably necessary in the sole determination of the Agent to carry out the terms and provisions of this Agreement. The Expenses shall be paid by deducting the amount set forth on Exhibit A-3 from the Funding Price shown on Exhibit A.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their authorized officers or representatives as indicated below, as of the day and year first written above.

MCGINN SMITH ACCEPTANCE CORP. (Agent)

By: \_\_\_\_\_  
David L. Smith, President

PALISADES GROUP, LLC (Palisades )

By: \_\_\_\_\_  
Thomas J. Few, President



EXHIBIT A

Palisades agrees that all Acquired Contracts to be Acquired by the Agent, under the terms and conditions of the Agreement, shall be at the Funding Price and Funding Schedule set forth below.

<u>Funding Date</u>	<u>Funding Price</u>
April 12, 2002	\$0.00

PALISADES GROUP, LLC (Palisades )

By: \_\_\_\_\_  
Thomas J. Few, President



EXHIBIT A - 1

SCHEDULED AMOUNT DURING ACQUIRED PERIOD

The Scheduled Amount shall be as follows:

Monthly Amount by Month:

Month 1 - 66                      \$0.00

1st payment due:              June 1, 2002

Any Scheduled Amount(s) not received by the Agent in the month when due shall bear interest at the rate of 15.00% interest per annum until paid.

PALISADES GROUP, LLC (Palisades )

By: \_\_\_\_\_  
Thomas J. Few, President

EXHIBIT A-2

AVAILABLE MONTHLY CASH FLOW

Month	No. of Contracts	Cash Flow Available
Month 1 – 66	0	\$0.00

PALISADES GROUP, LLC (Palisades )

By: \_\_\_\_\_  
Thomas J. Few, President

EXHIBIT A-3

EXPENSES

Palisades agrees that Expenses deducted under the terms and conditions of the Agreement shall be at the amount set forth below.

<u>Funding Date</u>	<b>Expenses</b>
April 12, 2002	\$0.00

PALISADES GROUP, LLC (Palisades )

By: \_\_\_\_\_  
Thomas J. Few, President

EXHIBIT B

FUNDING DATE

<b>Funding Date</b>	<b><u>Number of Contracts Acquired</u></b>
April 12, 2002	<b>MONITORING CONTRACTS</b>

PALISADES GROUP, LLC (Palisades )

By: \_\_\_\_\_  
Thomas J. Few, President

EXHIBIT C

APPROVED FORMS UNDER THE ACQUISITION PROGRAM

(consisting of a two-page printed form which follows)

EXHIBIT D

LIMITED POWER OF ATTORNEY



IN WITNESS WHEREOF, Palisades and the Agent have executed this instrument on this the 12th day of April, 2002.



PALISADES GROUP, LLC

By: \_\_\_\_\_  
Thomas J. Few, President

MCGINN SMITH ACCEPTANCE CORP.

By: \_\_\_\_\_  
David L. Smith, President

STATE OF NEW JERSEY     )  
COUNTY OF OAKLAND     ) SS.:

BEFORE ME, the undersigned authority, on this day personally appeared Thomas J. Few, President of Palisades , a New York corporation, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes therein expressed on behalf of such company.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this \_\_\_\_ day of April, 2002.

\_\_\_\_\_  
Notary Public, State of New Jersey  
My Commission Expires:

STATE OF NEW YORK)  
COUNTY OF ALBANY ) SS.:

Before me, the undersigned authority, on this day personally appeared David L. Smith, President of McGinn Smith Acceptance Corp., a New York corporation, known to me to be the person whose name is subscribed to the foregoing instrument, and acknowledged to me that he executed the same for the purposes therein expressed on behalf of such corporation.

GIVEN UNDER MY HAND AND SEAL OF OFFICE, this \_\_\_\_ day of April, 2002.

\_\_\_\_\_  
Notary Public, State of New York  
My Commission Expires:

EXHIBIT “E”

MONITORING RECEIVABLE FINANCING PARTICIPATION AGREEMENT

MONITORING RECEIVABLE FINANCING PARTICIPATION AGREEMENT

This MONITORING RECEIVABLE FINANCING PARTICIPATION AGREEMENT (the "Agreement") is between MCGINN SMITH ACCEPTANCE CORP., a Delaware corporation, having its principal place of business at 99 Pine Street - Fifth Floor, Albany, New York 12207 (the "Portfolio Financial Manager") and PACIFIC TRUST 02, a grantor trust established under the laws of New York having its principal place of business c/o McGinn, Smith & Co., Inc., Trustee, 99 Pine Street, Albany, New York 12207 ("Participant").

WITNESSETH

WHEREAS, the Portfolio Financial Manager, in the regular course of its business, approves contracts (as hereinafter defined) for financing and may desire from time to time to arrange for the financing of Contracts by Participant; and

WHEREAS, the Participant may desire to finance, through Contracts arranged by the Portfolio Financial Manager, Contracts on the terms and conditions set forth below;

NOW THEREFORE, it is agreed as follows:

SECTION 1. DEFINITIONS. Unless otherwise defined herein, all capitalized terms used herein shall have the meanings assigned to them in the Monitoring Receivable Financing Agreement (as hereinafter defined).

SECTION 2. FINANCING OF CONTRACTS. From time to time, the Portfolio Financial Manager may arrange for the financing of Contracts from Palisades Group, LLC, a New York Limited Liability Company ("Palisades"), which satisfy the criteria specified herein and in the Monitoring Receivable Financing Agreement. The financing by Participant of one or more Contracts will not obligate the Participant to finance any other Contracts.

SECTION 3. MONITORING RECEIVABLE FINANCING AGREEMENTS. Palisades has entered into an agreement with the Portfolio Financial Manager in the form attached hereto as Exhibit A (the "Monitoring Receivable Financing Agreement"), which agreement forms a part of this Agreement, for the financing of Contracts acquired by Palisades from various Security Alarm Dealers ("Security Alarm Dealers").

SECTION 4. WARRANTIES AND REPRESENTATIONS OF THE PORTFOLIO MANAGER. The Portfolio Financial Manager hereby represents and warrants to the Participant as follows:

(a) The Portfolio Financial Manager is a duly formed corporation, validly existing and in good standing under the laws of the State of Delaware.

(b) The execution, delivery and performance of this Agreement, the consummation of the transactions contemplated hereby and compliance with the provisions of this Agreement by the Portfolio Financial Manager (i) are within the Portfolio Financial Manager's corporate powers; (ii) have been duly authorized by all necessary and proper action on the part of the Portfolio Financial Manager; and (iii) do not and will not require the consent of any party (which has not heretofore been received) and will not result in a breach of, or default under, any loan or credit agreement, indenture, business agreement, mortgage, guarantee or other agreement or instrument to which the Portfolio Financial Manager is a party or by which it is bound; or conflict with or violate any existing law, rule, regulation, judgment, order or decree of any governmental instrumentality, agency or court having jurisdiction over the Portfolio Financial Manager or any of its properties.

(c) There is no action, litigation, suit, proceeding, inquiry, or investigation, either at law or in equity or before any court, public body or board, pending, or, to the best of the Portfolio Financial Manager's knowledge, threatened against or affecting the Portfolio Financial Manager which involves the possibility of materially or adversely affecting the property, business, profits or conditions (financial or otherwise) of the Portfolio Financial Manager.

SECTION 5. COVENANTS OF THE PORTFOLIO FINANCIAL MANAGER. The Portfolio Financial Manager hereby covenants as follows:

(a) Credit Standards: All Contracts arranged for financing by Participant shall be duly inspected by the Portfolio Financial Manager, reviewed for creditworthiness and approved pursuant to the credit standards and procedures set forth in the Monitoring Receivable Financing Agreement.

(b) Required Due Diligence Matters: The Portfolio Financial Manager shall obtain and review, as to Palisades, the documents described in Exhibit C attached hereto and made a part hereof. All documents shall be made available to the Participant upon request. Contracts will not be arranged for financing by the Portfolio Financial Manager in the event that: (i) such financing would violate the terms or provisions of Palisades certificate of incorporation or by-laws; (ii) Palisades is not in good standing in its State of domicile; (iii) Palisades has any franchise, income or other similar taxes due and owing to any governmental agency or authority; (iv) Contracts are subject to any lien or security interest other than the lien and security interest under the Monitoring Receivable Financing Agreement; (v) any judgment has been filed against Palisades which remains unsatisfied; (vi) the Central Station which Palisades has contracted with to provide Monitoring Services (the "Central Station") is not duly licensed to transact business as a security monitoring company in its State of domicile or in any state in which it is performing monitoring services where such license is required; or (vii) Palisades or the Central Station have failed to maintain general liability insurance coverage in a minimum amount of \$1,000,000.

(c) Contract Standards: Each Contract shall (i) have a term not to exceed 60 months; (ii) require the Obligor to pay a monitoring fee not to exceed \$60.00 per month; and (iii) meet all other criteria specified herein and in the Monitoring Receivable Financing Agreement.

(d) Contract Compliance: Palisades shall have all transaction contracts and forms therefor reviewed by its counsel and Palisades shall warrant and represent to the Portfolio Financial Manager that the Contracts (i) are legal, valid and binding obligations of the parties thereto, enforceable in accordance with their terms and (ii) comply with all federal, state and local laws, rules and regulations.

SECTION 6. FORMS AND CREDIT DATA. All Contracts financed by Participant shall be in form and substance satisfactory to the Participant and shall be held by the Portfolio Financial Manager for the benefit of the Participant, accompanied by the bona fide, original contract obligation instrument and all other original documents executed by the Obligor thereon.

SECTION 7. CONTRACT FINANCING. The Participant will be provided a yield on each financed Contract as follows:

Participant Yield:	6.0%
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Contracts financed under this Agreement shall be designated as Portfolio #100-01. For Portfolio #100-01, the Participant shall finance Residential Monitoring Contracts having terms up to 60 months.

The Contract Funding Price ("CFP") for Portfolio #100-01 is as follows:

Participant Funding Price	\$900,000
Total Contract Funding Price	\$900,000

The Participant Master Identification Number assigned under this Contract is #01.

Unless otherwise agreed, Participant will pay the CFP to the Portfolio Financial Manager upon execution of this Agreement, together with all other documentation.

**SECTION 8. COLLECTIONS AND SERVICING.** Palisades, pursuant to the terms of the Monitoring Receivable Financing Agreement, shall bill for and provide all required collection services necessary to effect payment of the underlying Obligations by the Obligor on the Financed Contracts.

Palisades shall deliver to each Obligor a monthly payment advanced billing. Palisades shall direct all Obligor Payments to a lockbox remittance processing and data capture service maintained by Preferred Data, Inc. ("Preferred"), as set forth in the remittance lockbox processing agreement( the "Lockbox Agreement") attached hereto as Exhibit D. Preferred shall deposit all such Obligor Payments into an Accumulation Account established in the name of the Participant at Charter One Bank, FSB. (the "Accumulation Account").

Participant shall be entitled to the monthly scheduled cash flow ("Scheduled Cash Flow") as set forth on Exhibit B, which amount shall be paid monthly from Obligor Payments collected by Preferred and deposited in Charter One Bank, FSB. Any funds remaining after the payment of the Scheduled Cash Flow each month shall be paid by the Portfolio Financial Manager to Palisades.

On the first business day of each month commencing June 1, 2002, the Portfolio Financial Manager shall withdraw from the Accumulation Account and pay the Participant an amount equal to the monthly Scheduled Cash Flow set forth on Exhibit B. In the event the Obligor Payments collected for any month by Preferred are less than the Scheduled Cash Flow due the Participant for that month, the shortfall for that month will be paid out of the first obligor Payments received by Preferred in the following month. Any Scheduled Cash Flow not received by Participant in the month when due shall bear interest at the rate of 15% interest per annum until paid. Thereafter, the Scheduled Cash Flow due the Participant for that month will be paid from the balance of the Obligor Payments received that month. Any funds remaining shall be used by the Participant to acquire New Contracts from Palisades to generate additional Scheduled Cash Flow.

The Portfolio Financial Manager shall be responsible to oversee Palisades' performance of its obligations under the Contracts and the Monitoring Receivable Financing Agreement. Upon written notice from the Participant to the Portfolio Financial Manager of the existence of a non-performing Contract, the Portfolio Financial Manager shall be responsible for overseeing Palisades' repurchase or substitution of such non-performing Contracts as required in Paragraph 12 of the Monitoring Receivable Agreement.

**SECTION 9. PERFORMANCE.** The Portfolio Financial Manager shall be responsible for overseeing that Palisades promptly fulfills all of its obligations to the Obligor with regard to the Financed Contracts, and shall, assist the Participant in the enforcement, assertion and exercise of any and all rights, powers and remedies conferred on or for the benefit of the Participant. The financing by Participant of any Contract will not be deemed an assumption by Participant of, or impose upon Participant, any obligation under the Contracts or any other agreements with any Obligor.

**SECTION 10. NOTICES TO PARTICIPANT.** The Portfolio Financial Manager shall promptly notify Participant of any information that may come to the Portfolio Financial Manager's attention which may have a material effect on any Financed Contract, including, without limitation, any default by, or claim or dispute with, any Obligor or Palisades.

**SECTION 11. RECORDS AND REPORTS.** The Portfolio Financial Manager shall, by appropriate entry in its books of account, record all transactions with Participant under this Agreement in accordance with generally accepted accounting principles, clearly indicating the participations sold hereunder.

SECTION 12. RETRANSFER TO PALISADES. Subject to compliance by Palisades with all of its obligations under the Monitoring Receivable Financing Agreement, including, without limitation, Section 10 thereof, upon receipt by Participant of all amounts due and owing during the mandatory payment period of any Financed Contract, whether repurchased by Palisades or paid in full by the Obligor, all of Participant's right, title and interest in such Financed Contract and related Obligations shall terminate and such Financed Contract shall be reassigned, transferred, delivered and/or endorsed by the Portfolio Financial Manager to Palisades or its respective assigns, without recourse and without warranty.

SECTION 13. RIGHT OF AUDIT. Participant shall have the right to audit the books, records and accounts of the Portfolio Financial Manager and Palisades relating to the Financed Contracts, at any time during reasonable business hours and at such Participant's own expense.

SECTION 14. NOTICES. Any notice, request, instruction or other document deemed by any party necessary or desirable to be given to any other party shall be in writing and shall be mailed and addressed as follows:

TO PORTFOLIO FINANCIAL MANAGER: MCGINN SMITH ACCEPTANCE CORP.  
Capital Center  
99 Pine Street - 5th Floor  
Albany, NY 12207  
Telephone: (518) 449-5131  
Telecopy: (518) 449-4894

TO PARTICIPANT:

PACIFIC TRUST 02  
McGinn, Smith & Co., Inc. Trustee  
99 Pine Street - 5th Floor  
Albany, NY 12207  
Attn: Timothy M. McGinn, Chairman of the Board  
Telephone: (518) 449-5131

SECTION 15. ENTIRE AGREEMENT, ETC. This Agreement expresses the entire agreement of the parties hereto, and supersedes all prior promises, representations, understandings, arrangements and agreements between the parties with respect the subject matter herein. The parties hereto further acknowledge and agree that none of them have made any representations to induce the execution and delivery of the Agreement except those as specifically set forth herein.

SECTION 16. APPLICABLE LAW. This Agreement shall be governed and construed under the laws of the State of New York.

DATED AS OF THE \_\_\_\_ DAY OF APRIL 2002.

**PACIFIC TRUST 02**

By: MCGINN, SMITH & CO., INC.  
TRUSTEE

**MCGINN SMITH ACCEPTANCE CORP.**

By: \_\_\_\_\_  
Timothy M. McGinn, Chairman

By: \_\_\_\_\_  
David L. Smith, President



EXHIBIT "A"

MONITORING RECEIVABLE FINANCING AGREEMENT

EXHIBIT "B"

PAYMENTS TO PARTICIPANT

## Pacific Trust 02

Month	Payment Date		Pledged RMR	Scheduled RMR	Begin Balance	6.00% Interest	Principal Payments	Total Debt Serv	Excess RMR	Purchased RMR	Ending Balance
1	June	2002	\$12,820	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$7,820	\$223	\$1,000,000
2	July	2002	\$13,043	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$8,043	\$230	\$1,000,000
3	August	2002	\$13,273	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$8,273	\$236	\$1,000,000
4	September	2002	\$13,510	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$8,510	\$243	\$1,000,000
5	October	2002	\$13,753	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$8,753	\$250	\$1,000,000
6	November	2002	\$14,003	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$9,003	\$257	\$1,000,000
7	December	2002	\$14,260	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$9,260	\$265	\$1,000,000
8	January	2003	\$14,525	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$9,525	\$272	\$1,000,000
9	February	2003	\$14,797	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$9,797	\$280	\$1,000,000
10	March	2003	\$15,077	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$10,077	\$288	\$1,000,000
11	April	2003	\$15,365	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$10,365	\$296	\$1,000,000
12	May	2003	\$15,661	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$10,661	\$305	\$1,000,000
13	June	2003	\$15,965	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$10,965	\$313	\$1,000,000
14	July	2003	\$16,279	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$11,279	\$322	\$1,000,000
15	August	2003	\$16,601	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$11,601	\$331	\$1,000,000
16	September	2003	\$16,932	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$11,932	\$341	\$1,000,000
17	October	2003	\$17,273	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$12,273	\$351	\$1,000,000
18	November	2003	\$17,624	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$12,624	\$361	\$1,000,000
19	December	2003	\$17,985	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$12,985	\$371	\$1,000,000
20	January	2004	\$18,356	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$13,356	\$382	\$1,000,000
21	February	2004	\$18,737	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$13,737	\$392	\$1,000,000
22	March	2004	\$19,130	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$14,130	\$404	\$1,000,000
23	April	2004	\$19,533	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$14,533	\$415	\$1,000,000
24	May	2004	\$19,949	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$14,949	\$427	\$1,000,000
25	June	2004	\$20,376	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$15,376	\$439	\$1,000,000
26	July	2004	\$20,815	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$15,815	\$452	\$1,000,000
27	August	2004	\$21,267	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$16,267	\$465	\$1,000,000
28	September	2004	\$21,732	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$16,732	\$478	\$1,000,000
29	October	2004	\$22,210	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$17,210	\$492	\$1,000,000
30	November	2004	\$22,701	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$17,701	\$506	\$1,000,000
31	December	2004	\$23,207	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$18,207	\$520	\$1,000,000
32	January	2005	\$23,727	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$18,727	\$535	\$1,000,000
33	February	2005	\$24,262	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$19,262	\$550	\$1,000,000
34	March	2005	\$24,813	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$19,813	\$566	\$1,000,000
35	April	2005	\$25,379	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$20,379	\$582	\$1,000,000
36	May	2005	\$25,961	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$20,961	\$599	\$1,000,000
37	June	2005	\$26,560	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$21,560	\$616	\$1,000,000
38	July	2005	\$27,176	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$22,176	\$634	\$1,000,000
39	August	2005	\$27,810	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$22,810	\$652	\$1,000,000
40	September	2005	\$28,461	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$23,461	\$670	\$1,000,000
41	October	2005	\$29,132	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$24,132	\$689	\$1,000,000
42	November	2005	\$29,821	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$24,821	\$709	\$1,000,000
43	December	2005	\$30,530	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$25,530	\$729	\$1,000,000
44	January	2006	\$31,260	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$26,260	\$750	\$1,000,000
45	February	2006	\$32,010	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$27,010	\$772	\$1,000,000
46	March	2006	\$32,782	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$27,782	\$794	\$1,000,000
47	April	2006	\$33,575	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$28,575	\$816	\$1,000,000
48	May	2006	\$34,392	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$29,392	\$840	\$1,000,000
49	June	2006	\$35,232	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$30,232	\$864	\$1,000,000
50	July	2006	\$36,095	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$31,095	\$888	\$1,000,000
51	August	2006	\$36,984	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$31,984	\$914	\$1,000,000
52	September	2006	\$37,898	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$32,898	\$940	\$1,000,000
53	October	2006	\$38,838	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$33,838	\$967	\$1,000,000
54	November	2006	\$39,804	\$5,000	\$1,000,000	\$5,000	\$0	\$5,000	\$34,804	\$994	\$1,000,000
55	December	2006	\$40,799	\$31,823	\$1,000,000	\$5,000	\$26,823	\$31,823	\$8,976	\$256	\$973,177

EXHIBIT "C"

DUE DILIGENCE DOCUMENTATION

☐ PRELIMINARY SPONSOR INFORMATION:

☐ Sample Contract

☐ CORPORATE DOCUMENTATION:

☐ Certificate of Incorporation

☐ Corporate By-Laws

☐ State of \_\_\_\_\_ Certificate of Good Standing

☐ Copy of General Liability Insurance Policy

☐ Current UCC Searches, Judgment & Tax Lien Searches

☐ Franchise Tax Search

☐ Recent Financial Statement

EXHIBIT "F"

LOCKBOX AGREEMENT

## LOCKBOX AGREEMENT

Agreement made this       day of April, 2002, between PREFERRED DATA, INC., a New York corporation, with a principal office located at 24 Madison Avenue Extension, Suite 1, Albany, New York 12203 (hereinafter referred to as "Preferred"), PACIFIC TRUST 02, a New York grantor trust, having its office c/o McGinn, Smith & Co., Inc., 99 Pine Street, Albany, New York 12207 (hereinafter referred to as "Pacific Trust") and MCGINN SMITH ACCEPTANCE CORP., a Delaware Corporation, its successors and assigns, 99 Pine Street - 5th Floor, Albany, New York 12207. (Pacific Trust and McGinn Smith Acceptance Corp. are sometimes hereinafter collectively referred to as "Client".)

Client is in need of Remittance Processing and Data Capture Services. Preferred is in the business of providing Remittance Processing and Data Capture Services of the type required by Client.

In consideration of the covenants and obligations hereinafter set forth and the mutual benefits to be derived hereunder, the parties agree as follows:

## SECTION ONE

DEFINITIONS

- A. Remittance Document - a billhead, remittance advice (coupon), invoice, payment book, or similar document (envelope) designated to indicate the amount of a payment due to Client from a specific customer.
- B. Payment Document - a check, money order, or other negotiable representation of cash.
- C. Transaction - the combination of some number of remittance document(s) and payment document(s) (checks, or similar orders for payment).
- D. Item - the higher number of either remittance documents or payment documents (checks) in a given transaction.
- E. Lockbox - a post office box rented by Client or some other point of pickup designated by Client.
- F. Bank - depository institution at which Client maintains an account(s).
- G. Deposit Date - the date a payment document is deposited to the bank.
- H. Dispatch - courier trips required for the pick up of transactions for processing and the deposit of payment documents at a designated bank. Any other courier trips which Client requests.

- I. Mail Sort Reject - mail received with no processible transaction.
- J. Data Element - a field of information found on the remittance document(s) or on the payment document(s).
- K. Posting - the transferal of prescribed data elements to magnetic media (tape, disk or transmission).
- L. Payment Record - a collection of specific data elements posted to magnetic media.
- M. Exception - a payment document which is deposited, and posted to magnetic media by manually keying the data. This includes all currency transactions.
- N. Reject - a non-deposited payment document and its accompanying (if any) remittance document(s).
- O. Reports - the hard copy representation of processed information.

## SECTION TWO

### SERVICES

PREFERRED, under the terms of this Agreement shall:

- A. Pick up mail daily from a Post Office Box located in Schenectady, New York.
- B. Open mail.
- C. Separate out non-processible transactions, (Mail Sort Rejects) and batch them for return to Client.
- D. Batch processible transactions, no more than one hundred fifty per batch, in payment document(s)/remittance document(s) order.
- E. Data Capture to magnetic media those data elements specified for each payment record: Company Code (2 digits), Division Code (2 digits), Account Number (10 digits) and Amount Due (10 digits). Check Digit for previous 24 digits (1 digit), Payment Account, Check Number.
- F. Create batch totals of payment amounts captured.
- G. Prove payment documents to these batch totals captured.
- H. MICRencode payment documents.

- I. Endorse payment documents.
- J. Reconcile all batch totals to deposit totals.
- K. Print the following report: Unsorted Detail - all transactions in processing order with batch totals of all payment amounts, and a daily deposit total.
- L. Data transmit all ASCII files in format defined by client as defined in Section Two, K.
- M. Prepare a deposit of payment documents.
- N. Deposit payment documents daily to Charter One Bank, F.S.B.
- O. Return remittance documents, mail sort rejects, and reports to Client through designated courier system on a daily basis, except for customer correspondence which will be sent on an as needed basis.
- P. Fax copy of Deposit Slip daily to Client.

### SECTION THREE

#### CONSIDERATIONS AND TERMS

A. CLIENT, shall pay to Preferred for the services provided under this Agreement:

1. Transaction Pricing

Automated	\$ .18/item
Semi-Automated	\$ .19/item
Exception	\$ .23/item
Reject	\$ .15/item

NOTE: An item is the number of either remittance documents or payment documents, whichever is higher.

2. Additional Services

Manual Processing	\$20.80/hour
ASCII File Transmission Line Costs	At cost
Postage	At cost
Courier	At cost
Programming	\$85/hour

- B. Preferred shall submit to Client a monthly invoice indicating detailed item counts for the month and associated costs.



- C. Client shall pay the amount due on or before the thirtieth (30th) day following receipt of the invoice.
- D. Within ninety (90) days before the end of each year of the Agreement, Preferred and Client agree to negotiate pricing modifications required for the following year of this Agreement.
- E. Preferred agrees that pricing modifications for any successive year will not exceed two percent (2%) of the previous year's prices.

#### SECTION FOUR

##### TERM AND TERMINATION

- A. The initial term of this Agreement shall be for one year from the date of execution after which the contract will automatically renew itself except as provided in B and C below.
- B. Either Client or Preferred Data shall have the right to cancel this Agreement with or without cause on ninety (90) days written notice to Preferred Data, Inc., 24 Madison Avenue Extension, Suite 1, Albany, NY 12203 Attention: Thomas P. Collins, President.
- C. Either Client or Preferred Data shall have the right to cancel this Agreement on thirty (30) days written notice to the other, if the other party shall be in default or breach of any material provision hereof, provided however, that if the party receiving such notice of cancellation shall cure the breach or default within a thirty (30) day period, this Agreement shall continue in full force and effect.

#### SECTION FIVE

##### CONFIDENTIALITY

All information made available hereunder shall be kept confidential by the recipient thereof and, without the prior written consent of the party furnishing the same, shall not be divulged to others. Nothing herein contained, however, shall be construed as preventing either party from disclosing to their respective, authorized employee or agents information necessary for the performance of services hereunder.

#### SECTION SIX

##### LIMITATION OF LIABILITY

Preferred shall in no event be liable for any loss, damage or delay arising from:

- A. Any failure to properly perform its duties hereunder is such failure is the result of circumstances beyond Preferred's control, including but not

limited to, severely inclement weather, natural disasters, fire, flood, interruption of transportation, embargo, accident, emergency shortages of equipment, governmental orders, regulations, restrictions, by strike, lockout, or other labor troubles or any other cause beyond the control of Preferred.

- B. Preferred shall maintain in full force and effect during the term of this Agreement, business, general liability insurance and excess fidelity insurance. Upon written request, Preferred shall provide Client with proof of such insurance.

#### SECTION SEVEN

##### LAW

It is mutually understood and agreed that this Agreement shall be governed by the laws of the State of New York, both as to interpretation and performance.

#### SECTION EIGHT

##### NOTICE

Any written notice necessary or appropriate under this Agreement shall be deemed to be properly given if sent by United States Registered Mail to the party to be notified at the address set forth below or at such other address as either party may hereafter designate in writing. The date of service of any notice so sent by registered mail shall be deemed to be five (5) days after the mailing thereof.

#### SECTION NINE

##### AMENDMENT

Additions or modifications to this Agreement may be made as long as both parties agree in writing to such additions or modifications.

#### SECTION TEN

##### CONTACT PERSONNEL

##### PREFERRED DATA, INC. CORP.

T. Paul Collins, President  
24 Madison Avenue Extension  
Suite 1  
Albany, NY 12203

##### MCGINN SMITH ACCEPTANCE

Timothy M. McGinn, Chairman  
99 Pine Street  
Albany, NY 12207  
518-449-5131

PACIFIC TRUST 02

David L. Smith, President  
McGinn, Smith & Company, Inc. Trustee  
99 Pine Street  
Albany, NY 12207

SECTION ELEVEN

McGinn Smith Acceptance Corp. agrees to pay all charges billed to Client during the term of this Agreement.

SECTION TWELVE

ENTIRE AGREEMENT

This instrument embodies the entire agreement of the parties. There are no promises, terms, conditions, or obligations other than those contained herein.

IN WITNESS WHEREOF, and intending to be legally bound, Preferred and Client have caused this Agreement to be signed in their names by their duly authorized officers as of the date first above mentioned.

PREFERRED DATA, INC.  
CORP.

By: \_\_\_\_\_

Name: T. Paul Collins

Title: Vice President

Date: \_\_\_\_\_

MCGINN SMITH ACCEPTANCE

By: \_\_\_\_\_

Name: Timothy M. McGinn

Title: Chairman

Date: \_\_\_\_\_

TRUSTEE

PACIFIC TRUST 02

BY: MCGINN, SMITH & CO., INC.,

By: \_\_\_\_\_

Name: David L. Smith

Title: President

Date: \_\_\_\_\_

**\$1,000,000 MAXIMUM  
\$50,000 MINIMUM**

## **PACIFIC TRUST 02**

**CONTRACT CERTIFICATES  
SEVENTY TWO MONTHS  
6.0%**

### **PRIVATE PLACEMENT MEMORANDUM**

**MCGINN, SMITH & CO., INC.  
ALBANY, NEW YORK**

**April 10, 2002**

NO DEALER, SALESMAN OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS MEMORANDUM AND IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY ANY SECURITIES TO WHICH IT RELATES. THIS MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR A SOLICITATION OF AN OFFER TO BUY SUCH SECURITIES IN ANY JURISDICTION TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH AN OFFER OR SOLICITATION IN SUCH JURISDICTION. NEITHER THE DELIVERY OF THIS MEMORANDUM NOR ANY SALE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE TRUST SINCE THE DATE HEREOF OR THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO ITS DATE. HOWEVER, IN THE EVENT OF ANY MATERIAL CHANGE, THIS MEMORANDUM WILL BE AMENDED, SUPPLEMENTED OR UPDATED ACCORDINGLY.

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3:39 PM

03/21/07

Accrual Basis

FEIN

## Transactions by Account

As of December 31, 2006

ABC

Type	Date	Name	Memo	Amount	Balance
RTC Loan					228,874 57
Check	1/3/2006	Rtc	Funds to cover 1/1 Monthly pmts	26,500 00	255,374 57
Check	1/31/2006	Rtc	February Interest	15,400 00	270,774 57
Check	2/28/2006	Rtc	Funds to cover 3/1 Monthly pmts	23,000 00	293,774 57
Total RTC Loan				64,900 00	293,774 57
TOTAL				64,900 00	293,774 57

Per Dave Kees - Represents findings of RTC Trust monthly cash flow shortages. To Be Repaid with Trust Receipts - after Trust debt is paid off 22 will be purchased by another entity. Not accrues all interest income on above loan as of 12/31/05

P

CCCC Loan (Chang)

1/23/2004	FEIN Escrow		Cccc
7/16/2004	Fein Operating	S	Cccc

R -500,000.00

R 25,000.00

*113* 475,000.00

**TOTAL CCCC Loan (Chang)**

Div Ex - 467

*1100*

CONFIDENTIAL

PURCHASER QUESTIONNAIRE FOR INDIVIDUALS

FIRST EXCELSIOR INCOME NOTES LLC  
(A New York Limited Liability Company)

The offering is being made pursuant to Regulation D under the Securities Act of 1933 (the "Act"). One of the requirements of the Regulation is that the persons involved in the offering and sale of the securities must have reasonable grounds to believe:

(i) that the Offeree has such knowledge and experience in financial and business matters that he is capable of evaluating the merits and risks of the prospective investment;

(ii) the undersigned is acquiring the Notes for investment purposes only and not with a view towards resale; and

(iii) the undersigned is aware that this offering will involve Notes for which no resale market exists, thereby requiring this investment to be maintained for the stated term of each Note.

Your answers will, at all times, be kept strictly confidential; however, each party who signs the questionnaire hereby agrees that the Company may present this questionnaire to such parties as may seem appropriate in order to insure that the offer and sale of the Notes to you will not result in violation of any exemption from registration under the Act which may be relied upon by the Company in connection with the sale of the Notes.

Please complete this questionnaire as thoroughly as possible and sign, date and return to the Company c/o McGinn, Smith & Co., Inc., Capital Center, 5th Floor, 99 Pine Street, Albany, New York 12207.

Please print or type:

Name:

Kee Mann Chana  
REDACTED

Home Address:

Carlisle, PA 17013  
REDACTED

Date of Birth:

Social Security No.:

Occupation:

Homemaker

Business Address:

Business Telephone:

REDACTED

Home Telephone:

Communications should be sent to:

Home Address ☒

or

Business Address ☐

1. What is your approximate net worth?

☐ \$50,000 - \$100,000  
☐ \$100,000 - \$250,000  
☐ \$250,000 - \$500,000  
☐ \$500,000 - \$1,000,000  
☒ Greater than \$1,000,000

2. Did your individual income exceed \$200,000.00 in 2002 and 2003, or did your joint income with your spouse exceed \$300,000.00 in each of those years?

Yes ☒

No ☐

3. If the answer to #2 above is "yes", do you expect to reach the same income level in 2004?

Yes ☒

No ☐

4. What was your approximate gross income for calendar year 2003?

☐ \$25,000 - \$100,000  
☐ \$100,000 - \$200,000  
☒ \$200,000 - \$300,000  
☐ \$300,000 - \$500,000  
☐ Greater than \$500,000

5. What will your approximate gross income be for calendar year 2004?

☐ \$25,000 - \$100,000  
☐ \$100,000 - \$200,000  
☒ \$200,000 - \$300,000  
☐ \$300,000 - \$500,000  
☐ Greater than \$500,000

6. I understand that in order to qualify as a purchaser of Notes, I must have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of an investment in the Company or I must engage an attorney, accountant or other financial advisor for the purpose of this particular transaction.

I hereby represent, by initialing on the Representation A or Representation B line below, that:

- A. I have such knowledge and experience in financial and business matters that I am capable of evaluating the merits and risks of an investment in the Notes and will not require a Purchase Representative.

Representation A. LMC

- B. I have relied upon the advice of the following Purchaser Representative(s) in evaluating the merits and risks of an investment in the Notes:

Representation B. \_\_\_\_\_

Name \_\_\_\_\_

Name \_\_\_\_\_

Relationship \_\_\_\_\_

Relationship \_\_\_\_\_

To the best of my information and belief, the above information is accurate and complete in all respects. I agree to notify the Company promptly of any changes which occur prior to sale of the Notes.

Purchaser:

Date:

Kee Mann Chang  
 Name (printed)

1-21-04

Kee Mann Chang  
 Signature



McGinn, Smith & Co., Inc.  
99 Pine Street  
Albany, NY 12207

To Whom It May Concern:

Please accept this letter as authorization to transfer the principal amount of \$500,000 from my Capital Center Credit Corp. note to "Charter One Bank Escrow Agent for First Excelsior Income Notes, LLC".

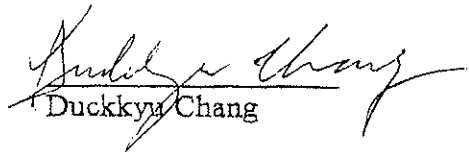
I also authorize you to purchase and register the First Excelsior Income Notes in my wife's name:

Kee Mann Chang  
REDACTED

Carlisle, PA 17013

SS# REDACTED

Sincerely,

  
Duckkya Chang

# PROMISSORY NOTE

\$500,000 ✓

Albany, New York  
January 23, 2004

FOR VALUE RECEIVED, the undersigned, CAPITAL CENTER CREDIT CORP., a corporation organized and existing under the laws of the State of New York, having an office at 99 Pine Street, Albany, New York 12207 herein designated as the Borrower, does hereby promise to pay to the order of FIRST EXCELSIOR INCOME NOTES, a limited liability corporation having an office at 99 Pine Street- 5<sup>th</sup> Floor, Albany, NY 12207 hereinafter designated as the Lender, the principal sum of FIVE HUNDRED THOUSAND DOLLARS (\$500,000), plus interest at the rate of twelve percent (12%) per year, which sum the Borrower herein covenants to pay to the Lender on the 23<sup>rd</sup> day of July 2004, in the following manner:

Interest and principle at the aforesaid rate of twelve percent per annum (12%) shall be due and payable on the, to and including the 23<sup>rd</sup> day of July, 2004.


Any payments received hereunder shall be applied first to the payment of interest and the balance in reduction of principal.

The whole of the principal sum, or any part thereof, shall become due and payable if default be made in any payment under this Promissory Note for a period of fifteen (15) days.

Presentment for payment, demand, protest, notice of protest and notice of dishonor are hereby waived.


SIGNED AND SEALED as of the 23rd day January, 2004.

CAPITAL CENTER CREDIT CORP.

By:   
David L. Smith, President

State of New York                    )  
County of Albany                    )ss:

On the 23<sup>rd</sup> day of January in the year 2004 before me, the undersigned, personally appeared David L. Smith personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacities, and that by his signature on the instrument, the individual, or the person upon behalf of which the individual acted, executed this instrument.

  
Signature and Office of individual  
taking acknowledgment

CAROLYN GRACEY  
Notary Public, State of New York  
No. 01GR6037985  
Qualified in Rensselaer County  
Commission Expires March 6, 2008