Teleconference Notes to address

General and specific areas or discussion

1 **Bond allegations**

Seemed to focus more on manipulations of quarterly earnings

-------- Vermont was part of a much larger avoidance scheme covering all the states the bank did business in (exception Domicile state of Maine)

Use of the tax reserves created for the aggressive state tax position taken by Banknorth

A review of the tax reserves would have shown an enormous reserve for aggressive new England bank tax avoidance

-------- The Bank's intent to deceive

Bond spoke to the lengths the Bank went to avoid the triggering of audit by Tax department

Specifically avoiding a large refund request

Instead hiding the direct refund of cash through a carry-forward request to future BFT periods.

THIS WAS TRUE--BUT DIFFICULT TO PRESENT AND ESTABLISH

2 **Failure to respect the integrity and independence of the separate legal subsidiary entities**

Field audit noted a discrepancy:

What we found that seemed determinative to the superior court /and mention in Supreme court

The failure to board the loans in 1 period--last month of the year

Reconciled the Federal 1120 to the financials- noted

That they had journal entries for tax purpose/after the books had been closed for the year

In other words the parent had not -_What was the deal here??

Quote Commissioner's Determination

When the taxpayer erroneously booked losses to the banks, rather than to the subsidiaries,

the taxpayer offered to remedy the error, retroactively, by simply moving the funds (on paper) to the correct set of books.

State's Exhibit 38 (taxpayer proposes to adjust the books retroactively "to bring them into conformity with market practice").

Gage Report

URE TO RESPECT SUBSIDIARY AS A SEPARATE LEGAL ENTITY

Mis-accounting of $14 million

A single incident related to the Howard Bank did arise during 2001. This incident did not affect the other 2 Vermont banks. It is of significance in that I believe that it is a reflection the indifferent attitude taken toward the relationship between Parent and Subsidiary. It is an isolated event, but significant from a dollar point of view.

A flaw in the accounting system failed to book income to the investment subsidiary during part of 2001. An accounting irregularity or so termed "flaw in the system" failed to divert the income to the subsidiary in accordance with the terms of the "participation agreement". The result was a failure to direct $14 million in income to the subsidiary investment company. This irregularity occurred throughout the year 2001. It involved numerous loans.

The books closed before the error was recognized and before adjustment could be made. Essentially as an after-thought the $14 million in income was transferred to the investment company. This involves a simple two-line entry for tax purposes.

The fact that there were no checks and balances to catch the error timely, reflects the failure of the Parent to respect the independence and separate existence of the subsidiary.

Additionally, no attempt was made to compute the interest due the subsidiary on this failure to timely pay the investment subsidiary, under the terms of the participation agreement.

3 **Graphic displays were a powerful tool;**

The creation of Bank subsidiaries has created unsupportable financial positions in both companies. They are clearly extreme and unrealistic.

Leaving Parent in a deep abyss /

Income in the subsidiary avoidance structure without any associate expenses

(no attempt to apportion expenses reasonably)

Graphs in general showed 'absurd" financials in the extreme

Defeat mechanics illustrated	The broad view of the avoidance scheme
Wacky interest graph	Interest expense substantially exceed interest income
The cone graphs	

4 **GREEDY: THEY GO TO THE EXTREME IN AVOIDANCE/ Not Well Thought out**

Why was it necessary for the Bank to avoid 100% of the tax.

They certainly could have presented a more viable business purpose if they had

not boarded all of their loans onto an avoidance entity

whether it be a REIT, a PIC, A QCIC or an Investment Holding Company

Had the bank reduced theuir taxes through these vehciles:

1 They might have argued effectively the need to do so--thus some business purpose

2 The financials would not have appeared to be so ridculous so as to raise suspicion.

5 The Supreme Court specifically adopted the "economic substance" doctrine,

The Vermont Supreme Court has upheld the imposition of tax on three banks,
despite the banks' creation and use of holding companies in an attempt to
technically eliminate liability under the Vermont bank franchise tax. In doing so, and ruled the holding companies created by the banks
were essentially empty shells and not engaged in substantial independent business activity beyond the achievement of tax avoidance.'