

## MAINE BUREAU OF FINANCIAL INSTITUTIONS

### ORDER APPOINTING CONSERVATOR IN RE: QUADS TRUST COMPANY

WHEREAS, pursuant to 9-B M.R.S.A. § 121, the Maine Bureau of Financial Institutions ("the Bureau") has responsibility for administering the Maine Banking Code, 9-B M.R.S.A. §§ 111 through 1329; and

WHEREAS, pursuant to 9-B M.R.S.A. Chapter 22, the Superintendent of the Maine Bureau of Financial Institutions ("the Superintendent") is required to examine all financial institutions organized under the laws of the State of Maine and may make any inquiries necessary to determine the condition of a financial institution and its compliance with State law; and

WHEREAS, QUADS Trust Company ("QTC"), with a principal place of business located in Frederick, Maryland, is a nondepository trust company organized pursuant to Chapter 121 of the Maine Banking Code and is subject to the supervisory powers of the Superintendent; and

WHEREAS, QUADS Financial Group, Inc. ("QFG"), with a principal place of business located in Frederick, Maryland, is the holding company of QTC; and

WHEREAS, pursuant to 9-B M.R.S.A. Chapters 101 and 121, the Superintendent's examination authority extends to holding companies, to the extent necessary to determine the soundness and viability of a subsidiary financial institution; and

WHEREAS, the management of QFG has presented financial information to the Bureau indicating sustained and substantial operating losses, significant negative net worth, delinquent senior notes and payroll taxes, and deficit working capital, each such circumstance indicating that the holding company is in an unsafe and unsound condition; and

WHEREAS, as of October 31, 2006:

- QTC had equity capital, net of amounts due from book insolvent affiliates (\$235,000), of \$427,000, less than the \$600,000 required by law.
- QTC had made net transfers to affiliates of \$285,000 without approval from the Superintendent, violating a May 5, 2005 Written Agreement making such transfers subject to prior written approval.
- QTC had not accrued and retained fees owed it pursuant to its Service Agreement, as amended March 30, 2006, with its affiliate Qualified Investors Management Corporation;
- QFG was book insolvent, with a negative net worth of \$2,522,000, having total assets of \$844,000 and total liabilities of \$3,366,000;

- QFG's year-to-date net loss was \$622,000, having budgeted net income of \$69,000;
- QFG's year-to-date earnings before interest, taxes, depreciation and amortization were a negative \$205,000, having budgeted \$326,000;
- QFG had accounts payable of \$352,000, of which \$258,000 (73%) was due for more than 90 days;
- QFG had \$90,000 of secured convertible notes past due since December 14, 2005; and
- QFG had \$200,000 of senior secured convertible notes due December 31, 2006; and

WHEREAS, as of December 31, 2006, QFG had not paid QTC the full amount of the \$200,000 Note dated June 30, 2005 owed QTC and interest thereon; and

WHEREAS, in the judgment of the Superintendent, QUADS Trust Company is in a potentially hazardous condition because of the unsafe and unsound condition of its holding company, QUADS Financial Group, Inc.; and

WHEREAS the potentially hazardous condition of QUADS Trust Company requires that it be protected from further deterioration; and

WHEREAS, pursuant to 9-B M.R.S.A. 363-A(1), the Superintendent is authorized, upon finding that a financial institution suffers from unsafe, unsound or other potentially hazardous condition, to appoint one or more conservators to remedy the financial institution's unsafe, unsound or other potentially hazardous condition,

THEREFORE, it is hereby ORDERED:

1. As of the time of this Order, QUADS Trust Company shall be and is in conservatorship, and Donald W. Groves, Deputy Superintendent of the Maine Bureau of Financial Institutions, 36 State House Station, Augusta, Maine 04333 shall be and is its Conservator;
2. Donald W. Groves, as Conservator, shall endeavor promptly to remedy the unsafe and unsound or other potentially hazardous conditions of QUADS Trust Company described in this Order and may, pursuant to 9-B M.R.S.A. 363-A, exercise all the rights, powers, privileges and authority required to do so, including (but not limited to) those powers possessed by the officers, governing

body, incorporators, members and investors of QUADS Trust Company; the power to employ assistants and counsel; and the power to remove any officer or member of the Company's governing body, if such removal is approved in writing by the Superintendent; and

3. Conservatorship established by this Order shall continue, until modified or terminated by further Order of the Superintendent.

By Order and Direction of the Superintendent of the Maine Bureau of Financial Institutions, effective 5:00PM this 31<sup>st</sup> day of January 2007 at Gardiner, Maine.

/s/ Lloyd P. LaFountain III  
Superintendent  
Maine Bureau of Financial Institutions

### **Appellate Rights**

Pursuant to 9-B M.R.S.A. §363-A(10)(A), only QUADS Trust Company may bring an action challenging the foregoing Order establishing conservatorship. Any such action must be brought in the Superior Court of Kennebec County at Augusta, Maine within ten (10) business days after receiving notice of the Order by any of those means prescribed by 9-B M.R.S.A. §363-A(10)(B).